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U.S. Congress. Senate.
Comm. on Naval Affairs.

Hearings before a
sub-committee of the...

[Washington]

1914

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U.S. Congress. Senate. Committee on naval affairs.
Hearings before a sub-committee of the Committee
on naval affairs, United States Senate, under
Senate resolution 291. Statement of Fairfax
Harrison on behalf of Southern railway company.
[Washington, 1914.
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SOUTHERN RAILWAY COMPANY.

OFFICE OF THE PRESIDENT.

WASHINGTON, D. C., July 28, 1914.

Sir:

As the management of Southern Railway Company relies largely for its success in meeting its problems and fulfilling the expectations of the public upon the justification by public opinion in the South of the ideals and the purposes which actuate what it does, I have deemed that our reply to certain charges brought against us by Mr. Benjamin L. Dulaney, of Bristol, Va., which have been widely disseminated in the public press, might be of interest to you.

Accordingly, I send you herewith a transcript of Senator Tillman's resolution under which the Senate Committee on Naval Affairs has recently been considering those charges, and of so much of the evidence as contains my defense of Southern Railway Company.

I venture to hope that you may find time to read these papers.

Faithfully yours,

FAIRFAX HARRISON,
President.

63D CONGRESS,
2D SESSION.

S. RES. 291.

IN THE SENATE OF THE UNITED STATES.

MARCH 10, 1914.

Mr. TILLMAN submitted the following resolution; which was referred to the Committee on Naval Affairs.

APRIL 28, 1914.

Reported by Mr. TILLMAN, with an amendment, and referred to the Committee to Audit and Control the Contingent Expenses of the Senate.

MAY 8, 1914.

Reported by Mr. WILLIAMS, with amendments, considered, amended, and agreed to.

RESOLUTION.

Whereas in view of the early completion of the Isthmian Canal and of its importance to the United States Navy and the national defense generally, and to the development of trade with Central and South American countries, the establishment of adequate coal-supplying facilities south of Cape Hatteras is deemed imperative; and

Whereas the usefulness and efficiency of any harbor as a coaling station must depend upon the facilities (first) of the coal producers for reaching it and (second) of the coal carriers in the matter of assembling the product at said port, including coal docks and other facilities for loading and handling, which should be accessible to all shippers and carriers alike on the same terms and conditions; and

Whereas it appears from numerous complaints now before the Interstate Commerce Commission, as well as from other sources, that the power and influence of the so-called Coal Trust is being persistently

used through the management of the railroads reaching South Atlantic ports to prevent the free movement of coal not belonging to said Coal Trust, and it is alleged that practically all of such roads are actually dominated by the same financial interests that control the great coal combines finding outlet chiefly through New York Harbor, Philadelphia, and the Chesapeake Bay ports: Now, therefore, be it

Resolved, that the Committee on Naval Affairs be, and it is hereby, authorized and instructed to investigate the natural and strategic advantages for naval purposes of ports south of Hatteras as compared with Norfolk and other Chesapeake Bay ports as a permanent point for coal distribution, and included and embraced in the scope of said investigation the said committee is further authorized and instructed to investigate into the character and proximity of the coal supply, and the rates obtainable on coal from the coal fields near by; and the committee is further instructed to ascertain as far as it is practicable—

First. What quantity of bituminous coal is consumed or used at Charleston, Savannah, Brunswick, Fernandina, and Jacksonville, and in their vicinities, and what proportion of this coal is supplied from mines located on the Pennsylvania Railroad system, including the Baltimore and Ohio, Norfolk and Western, and Chesapeake and Ohio, and what proportion is supplied by mines on the Southern Railway.

Second. Whether the United States Navy, including the naval stations, now pays a higher freight rate for coal supply at any or all Atlantic seaports than is charged to commercial ships for bunkering or for coastwise distribution; and whether all coal for naval supply, at the Atlantic seaports, is not supplied by the so-called Coal Trust; that is, by the mines that have a common ownership or control with the coal carriers; and whether present conditions prevent competitive bidding for the United States Navy coal supply, or any part thereof, by independent coal operators.

Third. The mileage from mine groups located on the Southern Railway in Virginia, Kentucky, Tennessee, Georgia, and Alabama to Wilmington, Charleston, Savannah, Brunswick, Fernandina, and Jacksonville; and the mileage to these same ports, the way the coal is moved from the mines on the Pennsylvania Railroad system and on the Baltimore and Ohio, Norfolk and Western, and Chesapeake and Ohio railroads and all connecting lines in West Virginia; and in all cases show the freight rates on coals to the cities named, both by rail and water; and where two or more carriers participate, ascertain the proportion of the rate (or service charge) each receives; and also compare these rates with those at seaport towns and cities from Norfolk to New York for local use, for tidewater shipment, and for naval use.

Fourth. Why the Southern Railway has built no wharves or made no provision for handling tidewater coal at any of the South Atlantic ports, and whether the riparian rights and water frontage of South Atlantic harbors is not now being bought up by the parties in the interest of the Coal Trust, while the Southern Railway is taking no active steps to build for itself an independent outlet.

Fifth. Whether trustees for the stockholders and members of the board of directors of the Southern Railway are financially interested in coal-mining industries on the Pennsylvania Railroad system, the Baltimore and Ohio, the Norfolk and Western, or the Chesapeake and Ohio, and to what extent; and whether they, or any of them, are financially interested in any coal-mining industries tributary to any of said railroads. And if found to be interested, ascertain whether such mines have been allowed preference or advantages not allowed to all other shippers (shown by cases already decided by the Interstate Commerce Commission or State commissions). And in all coal-mining operations tributary to the Southern Railway in which any director of the Southern Railway or director of any railroad controlled by it, or allied with the Southern Railway, is financially interested, ascertain the division of through rates with other railroads, and in all cases where a coal operation tributary to the Southern Railway controls a local railroad, or when such local railroad is controlled in common with a coal operation, for assembling and distributing its own coal, ascertain just what proportion of rates it receives, if any, from the carriers, or what compensation other than a division of the rates it may receive.

Sixth. Whether the rate making for the Southern Railway, or other southern carriers of coal, is dominated by the Pennsylvania Railroad or Norfolk and Western; or whether the freight rates of the Southern Railway and any of the other southern coal carriers are made and fixed and maintained by the traffic men of the Southern Railway and other southern carriers; or whether the Pennsylvania Railroad, the Norfolk and Western Railway, the Baltimore and Ohio, and Chesapeake and Ohio, exercise any influence either through a rate-making or traffic association or otherwise, in the matter of making the rates for the Southern Railway and other southern carriers.

Seventh. Whether or not there is any discrimination now existing in favor of any one port on the Atlantic seaboard as against another port, and, if so, in what does such discrimination consist; and whether or not any coal trust or combination of railroads and coal companies control the coal tonnage to any port or ports; and, if so, how; and whether or not the coal supply of West Virginia, Virginia, Pennsylvania, Tennessee, and Kentucky flows naturally and without unnecessary obstruction to their respective natural ports upon the Atlantic seaboard; and whether or not there is any discrimination in rates against any coal operators.

Eighth. The coal rates to thirty or more representative cities on the Southern Railway in Virginia, North Carolina, South Carolina, Georgia, and Florida, and compare these rates with the rates enjoyed by the cities of relative importance and location, with regard to mines, in Pennsylvania, Ohio, Indiana, and Michigan on the Pennsylvania Railroad system, including the cities whose rates are compared in the letter read into the Congressional Record by Senator Tillman on April eighth.

Ninth. What actual ownership each director of the Southern Railway Company has in that company, and what ownership, if any, is held in it by the individuals composing the trustees for the stockholders.

Said Committee on Naval Affairs is authorized to sit during the sessions of the Senate and during any recess of Congress, and its hearings shall be open to the public, and it is authorized and empowered to employ coal experts, railroad rate experts, and to employ a stenographer at a price not to exceed \$1 per printed page. Said committee shall have power to compel witnesses to testify, to send for persons and papers, to administer oaths to witnesses, and do anything necessary to arrive at all the facts.

The expenses incident to the investigation herein authorized shall not exceed \$5,000, and shall be paid out of the contingent fund of the Senate upon vouchers signed by the chairman of the Committee on Naval Affairs and approved by the Committee to Audit and Control the Contingent Expenses of the Senate. The said Committee on Naval Affairs may, in its discretion, conduct this investigation by a subcommittee of not less than five members, to be appointed by the chairman, and shall make its report as soon as possible.

HEARING BEFORE A SUB-COMMITTEE OF THE SENATE COMMITTEE ON NAVAL AFFAIRS.

WASHINGTON, D. C., Monday, July 20, 1914.

The Committee met at 10 o'clock a.m.

Present: Senators Nathan L. Bryan (Chairman), William Alden Smith and Miles Poindexter.

The Chairman: This meeting is called to consider Senate Resolution number 291, introduced by Senator Tillman of South Carolina, and the sub-committee will proceed with the hearing, taking up first the consideration of the charges made in the resolution.

Senator Tillman, do you desire to make a statement?

Senator Tillman: Mr. Chairman, I feel that I ought to make an explanation of how that resolution came to be introduced. Mr. B. L. Dulaney, who will be the first witness, came to see me some time last winter and in talking over the coal situation I found him the best informed man I had ever met on that subject. Mr. Dulaney opened up what I conceive to be so important a factor in the price of coal, in our State especially, as well as in the whole South Atlantic Coast, that I believed it my duty to try to find out if the conditions could not be remedied. After consulting with some of my colleagues on the Naval Committee, you among others, I introduced this resolution which the Senate passed. Mr. Dulaney is, in a way, the prosecutor in this case and Mr. Fairfax Harrison, President of the Southern Railway, by his letter to me, showing the attitude of the Southern Railway in this case, is the defendant. Both of these gentlemen, I presume, will testify before the hearing is over. I thought it due Mr. Dulaney that the people should understand who started the investigation and that he ought to get most credit for whatever it brought to light.

The Chairman: At this stage of the proceeding we will have copied into the record the letter from Mr. Dulaney to Senator Tillman and the letter to Senator Tillman from Mr. Harrison, President of the Southern Railway Company.

The letter from Mr. Dulaney to Senator Tillman is in the words and figures following:

"March 25, 1914.

Senator B. R. Tillman,
Washington, D. C.

Dear Sir: The most important question to the industrial world is transportation. By the control of the transportation of this country one can build up or break down any section regardless of its natural advantages. It is well known that the transportation of this country is controlled by a small group of financiers, mainly in New York. But while they control the transportation of the whole country, their ownership of industrial enterprises is limited to certain parts of the country, as, for example, the coal industry of Pennsylvania and some other sections; and hence the flagrant abuses in the prac-

tices of rate making to favor their own coal and to destroy the independent coal mines.

In the matter of coal freight rates, I think the most abused States in the Union are North Carolina, South Carolina, Georgia, Florida and a portion of Virginia. The industrial progress of these States has been in spite of the high cost of fuel transportation and it ought to be clear to every one of intelligence that general manufacturing can not prosper until transportation conditions have been corrected. By an examination of the rate sheets, open to all, it will be seen that the average manufacturer located on the Pennsylvania System, for example, pays from 30 to 60 per cent less freight on fuel than is paid by the average manufacturer on the Southern Railway—that is, for haulage for equal distance. For example:

Compare rates to Columbus, Ohio, with rates to Columbia, S. C.:

	Miles.	Rates.
To Columbus from Pocahontas.....	334	\$1.15
To Columbia from Appalachia.....	318	2.25

Compare rates to Toledo, Ohio, with rates to Savannah, Ga.:

	Miles.	Rates.
To Toledo from Pocahontas.....	456	\$1.45
To Savannah from Appalachia.....	471	2.10

Compare rates to Cincinnati, Ohio, with rates to Lynchburg, Va.:

	Miles.	Rates.
To Cincinnati from Pocahontas.....	340	\$1.10
To Lynchburg from Pocahontas.....	169	1.50

Compare rates to Cleveland, Ohio, with rates to Charleston, S. C.:

	Miles.	Rates.
To Cleveland from Pocahontas.....	472	\$1.35
To Charleston, S. C., from Appalachia.....	447	2.05

Compare rates to Dayton, Ohio, with rates to Winston-Salem, N. C.:

	Miles.	Rates.
To Dayton from Pocahontas.....	364	\$1.35
To Winston-Salem from Pocahontas.....	239	2.10

Compare rates to Indianapolis, Ind., with rates to Augusta, Ga.:

	Miles.	Rates.
To Indianapolis from Pocahontas.....	449	\$1.65
To Augusta from Appalachia.....	401	2.20

Compare rates to Detroit, Mich., with rates to Charlotte, N. C.:

	Miles.	Rates.
To Detroit from Pocahontas.....	505	\$1.60
To Charlotte from Appalachia.....	305	2.25

Where there are two or more routes the short mileage is used.

The evident purpose of these high rates, especially to the coast towns and cities, is not to raise revenue for the Southern Railway, but to prohibit the movement of coal by it from the mines on its own rails to tidewater, for if the independent coal shippers had access to tidewater with proper coal-loading facilities there would be competition with the Coal Trust from Florida to Maine as well as in the export business; and, moreover, the coast towns and cities from Charleston to Tampa are forced to buy much of their coal from the Coal Trust from mines a thousand miles away, and thus several millions of dollars are annually sent away, and the Southern Railway is robbed of its natural rights to haul the coal and is thus used by its directors to obstruct development in the territory that supports and protects it. These things are wrong, and such practices in rate making are unfair and without justification from any point of view. The Southern Railway is a splendid property, and if it were run in its own interest and for the development and benefit of the territory in which it is located there is no just reason why every seaport from Jacksonville to Norfolk should not have as low tide-water rates as are now enjoyed in the domain of the Coal Trust at the seaports from Norfolk to New York, for it has its own rails reaching directly from the coal mines in Virginia, Kentucky, Tennessee, and Alabama directly to Norfolk, Charleston, Brunswick, and Jacksonville.

I believe that it is a conservative estimate to say that the mines from Virginia to Alabama reached directly by the Southern Railway could furnish now at the rate of 10,000,000 tons per annum for tide-water business, and this tonnage could be increased at an enormous annual rate if the operators were only certain of their position. This would increase the gross revenues of the Southern Railway by \$14,000,000, assuming that the tidewater rate of \$1.40 would be put in, and when you add to the freight item the value of the coal itself, at a low estimate, the amount would be \$25,000,000 annually that would remain in the territory served by the Southern Railway, and this total should increase annually for many years to come if the Southern Railway has a square deal. The average distance from mines on the Southern Railway to tidewater is practically the same as from the mines on the Norfolk & Western Railway and the Chesapeake & Ohio Railroad to tidewater, and the two latter roads have grown rich and powerful by the movement of coal at rates low enough to assure the movement of coal, and there is simply no good reason why the Southern Railway should not do likewise, but this road, as is well known, is controlled by the same financiers who control the big coal interests known as the Coal Trust, and some of them were identified with the recent scandal in connection with the New York, New Haven & Hartford Railroad, and it is claimed that they control practically every railroad in the South.

I allege with emphasis that, in addition to the wrongs above recited against the southern country, not only the Southern Railway,

but the Norfolk & Western Railway as well are being used to destroy private interests, specifically some of the independent coal properties in the territory, and I believe that an honest investigation will prove this statement beyond the shadow of a doubt. For many years I have been engaged in development work in that territory and have had a good deal of experience in dealing with some of these financiers who control the Southern Railway. Some of their valuable properties are those which I developed and which they obtained by methods that I think should put to shame an ordinary train robber or a bandit. I am now responsible for an investment of probably \$5,000,000 in what is known as the Black Mountain coal field, which is literally held up and refused an outlet for its product, though reached directly by the Southern Railway, the Louisville & Nashville Railroad, and is within a few miles of the Norfolk & Western Railway. The investment and the development in this field were induced largely by the promises made by the Southern Railway to give an outlet at Charleston, and though the Southern has had its line completed from the coal mines to Charleston for 10 years, no outlet has been provided.

I believe a thorough investigation by a Senate committee will show that the Southern Railway has been the dumping ground for the sale of other railroads at unreasonable profits by the friends or business associates of some of the directors. I have personal knowledge of the sale of the Virginia and Southwestern Railway by Henry K. McHarg at practically six times what it cost him or his company, when the Southern Railway could just as well have bought it directly and saved the five millions. I believe that an investigation will show that such transactions, amounting to probably \$50,000,000 or more, have taken place since the control by the present financiers.

I believe that a thorough investigation will show that the abnormally high local rates throughout the Southern territory are due in a large measure to the need of revenues to meet such purchases and to the inflation of capital and bond issues caused thereby.

I believe that an investigation will show the existence of a secret rate-making association, and that all important freight rates in the territory in question are dominated by the Pennsylvania Railroad greatly to the detriment of all the other railroads involved and unfair to the country they traverse.

I believe that an investigation properly conducted will show that the men who control the Southern Railway have practically no investment either in the Southern Railway or in the territory served by it, except in a small portion of Virginia and Alabama.

In the matter of handling the several bond issues of the railway and the short loans these men, as is well known, have been on both sides of the transaction. I believe that this investigation should be made in the interest of the security holders, as well as in the interest of the railroad itself, and particularly in the interest of the territory which the railroad serves.

In conclusion, let me say that these conditions have taken shape and grown from bad to worse under the very eyes of the Interstate

Commerce Commission, and hence I suppose that body is powerless to give relief, and therefore I earnestly urge you not to favor a reference of the Tillman resolution to the Interstate Commerce Commission.

Very truly yours,
B. L. DULANEY."

The letter addressed to Senator Tillman by Fairfax Harrison, President of the Southern Railway Company, is in the words and figures as follows:

"SOUTHERN RAILWAY CO.,
Office of the President,
1300 Pennsylvania Avenue, Washington, D. C.,
April 16, 1914.

The Hon. Benjamin R. Tillman,
United States Senate, Washington, D. C.

Dear Sir: My attention has been called to a letter written to you by Mr. B. L. Dulaney, under date of March 25, 1914, and published in the Congressional Record of April 8, 1914.

This letter contains serious charges against the management of this company. They have been made on the floor of the Senate and have become a part of its record.

If they are true, the management of this company ought to be exposed.

If they are false, their author ought to be exposed.

I ask, on behalf of the Southern Railway Co., an opportunity to refute them, and, to that end, that a speedy and thorough investigation be ordered and the results given as wide publicity as the charges.

Faithfully yours,
FAIRFAX HARRISON, President."

MONDAY, JULY 27, 1914.

SUBCOMMITTEE ON NAVAL AFFAIRS,
UNITED STATES SENATE,
Washington, D. C.

The subcommittee met, pursuant to adjournment, at 10 o'clock a. m.

Present: Senators Nathan P. Bryan (chairman) and William E. Chilton.

Present, also: Senator Tillman.

TESTIMONY OF MR. FAIRFAX HARRISON, PRESIDENT,
SOUTHERN RAILWAY CO., WASHINGTON, D. C.

(The witness was duly sworn by the chairman.)

Mr. Thom: Mr. Harrison, are you president of the Southern Railway Co.?

Mr. Harrison: I am.

Mr. Thom: How long have you held that position?

Mr. Harrison: Since December 1, 1913.

Mr. Thom: Please tell the committee your previous relationship with the company, your knowledge of its history, and its development, and its policies.

Mr. Harrison: I have been in the service of the Southern Railway Co. for 18 years. I entered the service in May, 1896, as a junior officer of the law department, having to do with the routine matters of the law department. Mr. Samuel Spencer was then president of the company, as he had been since its organization in 1894, and he from time to time gave me work to do in immediate relation with him.

It was during the period of the expansion of the system, when Mr. Spencer was making the map of the Southern and buying a great many railroads. I came into closer and closer relation with Mr. Spencer in that work in carrying out his policies. In 1903 he made me assistant to the president, to work immediately with him and with Mr. Finley, who was then second vice-president, in charge of the property.

On Mr. Spencer's death in 1906, Mr. Finley made me one of the vice-presidents of the company and put me in charge of its finances because of my relation with the finances with Mr. Spencer. I continued as a vice-president in responsible charge of the finances of the company until 1910, when I was elected president of the Chicago, Indianapolis & Louisville Railway Co., with headquarters in Chicago.

I had meanwhile been elected director of the Southern Railway Co., on the death of Mr. Joseph Bryan, of Richmond, in 1909. September 30, 1910, I was elected a member of the executive committee on the death of Mr. James T. Woodward. While I went to Chicago to be in charge of the Monon, as it is called, I did not sever my relation with the Southern Railway Co. but continued in active and responsible charge of the finances of the company, and continued on the board of directors and as a member of the executive committee. On Mr. Finley's death in November last I was elected president of the company.

Mr. Thom: How far have you been conversant with and in touch with the policies and general principles of management of the company, Mr. Harrison?

Mr. Harrison: During Mr. Spencer's administration I was a junior, and was not consulted about policy. I had an intimate personal contact with him in its administration, and I absorbed his policy by what he told me, by what I saw, and by what was done. When Mr. Finley became president he made me his assistant in the largest sense of the term. We became together responsible for the policy of the company. He consulted me about everything of any magnitude, any new relations of the company, and I advised with him, and my views and my judgment were considered, if they were not always adopted, in determining the policy of the company from the beginning of Mr. Finley's administration until the end.

Mr. Thom: Did that touch that you had with the management of the company give you knowledge of its views and policies in respect to coal matters as well as other matters?

Mr. Harrison: It did, in the general sense.

Mr. Thom: Now, Mr. Harrison, will you give, in your own way, a statement of the policies of the company in respect to the matters now under investigation?

Mr. Harrison: I have understood from the resolution adopted by the Senate, under which this proceeding is held, that this was an inquiry of a general nature of the sources of coal supply on the Atlantic seaboard as affecting the naval strategy of the United States. In the resolution there are requirements for inquiries with regard to the particular policy of the Southern Railway Co., and in his opening statement at this hearing Senator Tillman has named Mr. Dulaney as the plaintiff, so to speak, and has named me as the defendant. I accept that assignment to defend the reputation of the Southern Railway Co.

I have no personal quarrel with Mr. Dulaney. In all the years of his contending with the Southern Railway Co. it has never been my fortune to come into personal contact with him. I do not think that I ever saw him before until I saw him on the witness stand here the other day. I have, of course, heard a great deal of him, and heard of his claims and his charges with regard to particular affairs in his relation to the Southern Railway Co.

I was somewhat at a loss to understand the motive for Mr. Dulaney's charges as they have been rehearsed here. I studied him with a great deal of interest when he was on the witness stand, and, taking that study and my own inquiry from others and what I could learn, I believe that Mr. Dulaney is suffering from what the medical books call the delusion of persecution. I believe that it is unjustified, and in my testimony I am going to develop some of the grounds of my belief.

I believe that Mr. Dulaney is actuated by a deep-seated hatred of one or two men who have succeeded where he failed, who succeeded in selling the Virginia & Southwestern Railway Co. where he failed, who succeeded in making a success of coal mining in the Appalachian district where he failed. I believe that, being unable to reach this man, or these men, he has attacked the Southern Railway. A railroad is always a target today for any attack, and that is my theory of why he is before

us here today. I resent with every fiber of my being the imputations of bad faith, of chicane, of malversation which have been brought against the management of the Southern Railway Co. in this hearing. I deny them all, and I take some comfort in the belief that those who know us and have done business with us throughout the South—and there are many—know our reputation and will not put credit in or give faith to those charges so far as they affect the personal character of the management of the Southern Railway Co.

I feel a greater resentment, however, at the further direction which the charges have taken, namely, that the Southern Railway Co. and its management have lent themselves servilely to the uses of a few men who have no interest in the South, who have selfish purposes to accomplish.

That charge fits in with the temper of the times. Anybody is willing today to hear the charge that a railroad is being used for a dishonest purpose. The pride of the Southern Railway Co. and its organization during many years has been in its own virility, in its quality of leadership, in its quality of progress, and of being first in doing things, despite its financial difficulties which have been its limitations at all times during its history.

Those are things which I challenge our competitors to deny. They know them. They have found them out in experience. Those are things which have given justification to the advertisement which we use of being "the premier carrier of the South." They are the spirit of two leaders of men—Samuel Spencer and William Wilson Finley infused through an organization. And every man in that organization today feels those things. I speak for myself, and I venture to say that I speak for others in the organization, when I say that if we knew for a moment that the stockholders of the Southern Railway Co. had elected a board of directors who used the Southern Railway Co. for purposes to the disadvantage of the South, I would resign. I believe that what I am trying to do, what my opportunity is, is to be of service to the South. And I have devoted my life to that, and shall so long as I am allowed to do so.

There is a story in Herodotus which I venture to apply to the Southern Railway Company, that when Xerxes was told about how a small body of Spartans were proposing to test the pass of Thermopylae, he wondered why they did not run away when they saw his army, and he said, "Especially as I understand they are freemen and they have no one to prevent them from running away," and one of his Greek allies told him, "They are freemen, O King, but they have a master whose name is Honor, whom they fear more than your servants fear you."

In the administration of industry today, Mr. Chairman, we hear a great deal of bad faith and of evil management, but I dare risk the reputation of the Southern Railway Co. before any tribunal for its motives, for its purposes, for its patriotism for the South. It has been officered largely by Southern men. It has always been led by Southern men. Mr. Spencer was a Georgian. Mr. Finley was a Mississippian. There has never been a time when any motive or interest on the part of anybody outside of the South has been a controlling motive in the management of the Southern Railway.

And, what is more, the policies of the Southern Railway Co.—and I remember I am testifying under oath—have originated at all times and in every detail with the management of the Southern Railway Co. They have not been directed, they have not been suggested by anyone living in New York or anywhere else, whether he is on the board of directors or has any other relation to the property. The board of directors has dealt with the questions of policy that the management has brought to them, and has originated no question of policy.

THE VOTING TRUSTEES AND THE DIRECTORS.

I propose in testifying frankly to deal with names, with the names which have been brought before this committee. First, I want to dismiss two names because I have no knowledge of them at all. We have heard of Mr. Berwind and Mr. Grant B. Schley as having some maleficent influence upon the Southern Railway Co. In the years of my relation to the Southern Railway Co.—and an intimate relation it has been—and its officers, I have never heard Mr. Berwind's name or his business mentioned as affecting the affairs of the Southern Railway Co. I have never known Mr. Berwind, I have never seen him, and if he has had any influence upon the affairs of the Southern Railway Co. it has been some occult reaction which I can not define, and which I will not admit that my intelligence was so limited as not to have defined if it existed.

I may say the same thing of Mr. Grant B. Schley. I do not know Mr. Schley; I never saw him in my life. I have no relations with him, and I do not believe he ever had any influence upon the policies of the Southern Railway Co.

Coming now to those whom I do know, and with regard to whom I have some knowledge and can testify, I will speak first of the voting trust of the Southern Railway Co. That was an institution organized at the organization of the company in 1894, the three voting trustees being J. Pierpont Morgan, Sr., who is dead, George F. Baker, Sr., and Mr. Charles Lanier. As to Mr. Pierpont Morgan's relation to the Southern Railway Co., he has never been a director. His official relation has always been that of a voting trustee. I can not speak with the same certainty of what Mr. Morgan said and did with regard to the Southern Railway Co. during Mr. Spencer's administration, because I do not know, but certainly from the beginning of Mr. Finley's administration until Mr. Morgan's death I know—

Mr. Thom: That is, from 1906?

Mr. Harrison: From 1906—I know that we have had very little contact with Mr. Morgan. He has never interfered in our affairs. He never proposed that we should do anything. He never discussed any form of traffic—including coal traffic—with us in the management of the company. My own relations with Mr. Morgan were of the slenderest character, the most infrequent, and so far as I heard what Mr. Morgan said and did with regard to the Southern Railway Co. it came to me through his partner, Mr. Charles Steele. Mr. Steele is a Southern man, bred at the University of Virginia. He has had his business career in New York, and has been a member of Mr. Morgan's firm a good many years. He has been a director of the Southern Railway Co. during

most of its history, and he has been a faithful, diligent, helpful, working director during all that time. He has supported the management where it needed support, but he has never at any time suggested, on behalf of himself as a director or on behalf of his fellows in the firm of Morgan & Co., or on behalf of Wall Street or anybody in the world, that we should do anything of any kind. He has discussed with us and criticized and considered our policies as we have developed them. He has been the most helpful director the Southern Railway Co. has had during its history, and his relation to the Southern Railway Co. is to his credit and to the credit of the Southern Railway Co. and not in any way to its discredit.

Of the other members of the voting trust, Mr. George F. Baker I have known pleasantly, but not intimately in any way. I have never come in contact with him except at long intervals. I have never heard him discuss the policy of the Southern Railway Co., except in the barest general outline from time to time. He has never to my knowledge proposed any policy or suggested any relation that he might have with any other property, either directly or indirectly, as controlling the destinies of the Southern Railway Co.

Mr. Charles Lanier, the third voting trustee, is a retired banker in New York, a man of the highest respectability, whose name gives credit to whatever he takes part in. He has been a director of the Southern Railway Co., as well as a voting trustee, for a number of years, but has never taken any very active part in the management.

The voting trust, organized in 1894, has just been dissolved. It has been, as Mr. Cleveland used to say, in "innocuous desuetude" for a good many years. The voting trustees would give a proxy for their election of directors at the annual meeting, but I never heard of their meeting or considering the affairs of the company as voting trustees. It has been on the cards for several years to dissolve the voting trust, because it no longer seemed to serve any useful purpose, that the company was strong enough to get along without it. Soon after I became president I asked them to dissolve it, because of my belief that the continued existence of it and the misunderstanding of its purpose by the public was harmful to the interests of the Southern Railway, and they promptly and cheerfully agreed, and they have done it.

The management of the Southern Railway Co., so far as the exercise of any control is concerned outside of the officers, has been vested in the executive committee of the board of directors. The executive committee consisted, during Mr. Finley's administration, of Mr. James T. Woodward, who was president of the Hanover Bank, a Southern man having large relations with the South through the banking connections of the Hanover; Mr. Charles Steele, another Southern man, and Mr. Adrian Iselin, Jr., of the firm of Iselin & Co., whose father made investments in the railroads of the South in the years immediately after the war, and who himself inherited an interest in and a relation to those properties, notably the East Tennessee, Virginia & Georgia Railroad, which is part of the Southern Railway today, and the Mobile & Ohio Railroad, and the Memphis & Charleston Railroad, three of our most important lines. Mr. Iselin was connected with those roads when they

were sold to the Southern Railway Co., and he naturally, with his knowledge and acquaintance and interest in them—the interest continued financially—came into the board of directors of the Southern Railway Co. and has been a member of the executive committee—a hard-working member of the executive committee who has helped us.

Another member of the executive committee today is Mr. George F. Baker, Jr. Mr. Baker is a young man who has come into responsibilities. He is an officer of his father's great bank, the First National, and is highly esteemed by all those who know him as a diligent, hard-working man. He was made a member of the executive committee because he was a young man, and because he was hard-working, and because it was believed he could be useful to us. He has not been a member of the executive committee or the board long enough to have taken very much part in the affairs of the company, but he has never in any way suggested, nor has my intelligence acquired through anything he has said a suggestion that he was using his position with the Southern Railway Co. to advance any other interests he might have elsewhere.

The other member of the executive committee—I do not speak of Mr. Finley or myself, we have been members during all these years—is Judge Gary, the chairman of the Steel Corporation. Judge Gary came into the board to succeed Mr. Spencer after his death and was made a member of the executive committee. Trying to think the matter back, I believe I was the one who suggested Judge Gary to the executive committee to fill the vacancy. My purpose in doing that, frankly, was to help the interests of the Southern Railway Co. It was before the days of universal disapproval of interlocking directors. We had large interests in the Birmingham district, of which the Tennessee Coal & Iron Co. is a factor. We had difficult questions arising out of the purchase and subsequent sale back to the Tennessee Coal & Iron Co. of the Birmingham Southern Railroad, and I believed that in all those relations it would be useful to us to have Judge Gary interested in our affairs.

He has been interested in our affairs, and I think at the moment of an instance of a relation with the Tennessee Coal & Iron Co. where the fact that Judge Gary was a director of the Southern Railway Co. was of very great importance to the Southern Railway Co. and more to its advantage than to that of the Tennessee Coal, Iron & Railroad Co. Judge Gary has never at any time used his office of director or as a member of the executive committee to propose or to suggest any use of the traffic policy of the Southern Railway Co. in behalf of the Tennessee Coal, Iron & Railroad Co. or of the Steel Corporation. I have watched Judge Gary very carefully, since we have heard so much about interlocking directors, on this very point, and he has been most scrupulous in his separation of his identity as an officer of the Steel Corporation and as a director of the Southern Railway Co. in our board meetings and in our discussions of our affairs in which he has taken part. I can deny, therefore, with absolute confidence that Judge Gary has exercised any influence over the policy of the Southern in general traffic, in purchases from the Steel Corporation, or in respect of coal moving from the Birmingham district, or that he has suggested any such interest.

Mr. Thom: Or any other district?

Mr. Harrison: Or any other district of any kind.

Is there any other individual that has been named?

Mr. Thom: I do not recall any.

Mr. Harrison: To sum up, I repeat that neither Mr. Spencer nor Mr. Finley was ever the tool of any man with a sinister purpose. We have been actuated by ambition to play a part in the regeneration of the South and to reward in money those who adventured their capital in the South to enable us to do that. The management of the Southern Railway Co. has had its eye single to the future of the South and it has had to make its living.

In making our living—

RELATIONS WITH OTHER RAILROADS.

Mr. Thom: Before starting on that, Mr. Harrison, I call your attention to the charge, which seems pertinent to what you have just been saying, that the traffic policy of the Southern Railway in respect to the movement of coal was dictated to it by the Pennsylvania Railroad traffic department. I would like to have you say whether or not that is true?

Mr. Harrison: That is absolutely untrue. The answer to that is the answer which I have made of the virility of the management of the Southern Railway. There is no officer of the Pennsylvania Railroad, or of the Norfolk & Western Railway, or of the Chesapeake & Ohio Railway, or the Virginian Railway, or the C., C. & O. Railway, or any other of our competitors, or any other of the coal-carrying railroads who ever could have directed the policy of the Southern Railway Co. We have fought our own battles, we have contended for our own interests, and we have protected ourselves. After one of the hearings of last week an officer of one of the roads I have named was talking to me, and he was evidently "tickled," as he expressed it, with the suggestion that his company had been able to control the Southern Railway Co. The best testimony on that subject, so far as the control of the Southern Railway Co. by the Pennsylvania, or the Norfolk & Western, or any of the rest of them is concerned, would be from the officers of those companies. I deny any such control.

Mr. Thom: Has the traffic policy of the Southern Railway in respect to coal been an independent one, adopted solely with reference to the interests and duties of the Southern Railway Co., or has it been in any way dependent on any other company?

Mr. Harrison: It has been one solely in the interest of the problem of the Southern Railway Co. in building its system in the South. I am coming to that, but if you will allow me I will postpone that and go back to where I was.

Mr. Thom: Very well.

HOW MR. SPENCER MADE THE MAP OF THE SOUTHERN.

Mr. Harrison: I would like to tell briefly the history of the development of the Southern Railway Co., what it has been and what it has been for.

The backbones—there are two of them—of the Southern Railway Co. were the Richmond & Danville Railroad and the East Tennessee,

Virginia & Georgia, which were together controlled by the Richmond Terminal Co., which failed disastrously in 1892. Several attempts at reorganization were made, and failed, by people in New York and elsewhere—Baltimore—and finally those who were largely interested in the securities of the old companies went to Mr. Morgan and asked him to take hold of it. He did take hold of it, and committed the carrying out of the policy of reorganization to his partner, Mr. Charles H. Coster, who is now dead, and he carried through a very difficult reorganization, which resulted in the organization of the Southern Railway Co. in 1894.

The lines of railroad vested in the Southern Railway Co. at its organization were two lines extending on either side of the Alleghany Mountains, the Richmond & Danville on the east and the East Tennessee lines on the west. They were interior lines. They touched tidewater at only two places, at West Point, Va., and at Brunswick, Ga., where the East Tennessee has a long line reaching down from Atlanta. They served only a portion of the South. Mr. Spencer conceived the necessity of extending this system of railroads when he took hold of it as the first president. For several years he conducted a very brilliant campaign of acquisition of railroads. He extended the system to the Atlantic seaboard at Norfolk, at Charleston, at Savannah, at Jacksonville, to the Gulf at Mobile and at New Orleans, to the Mississippi River at Memphis and St. Louis, and to the Ohio River at Louisville and Cincinnati, and he acquired an interest in the Monon Railroad, reaching out to Chicago.

He acquired a great many railroads in doing that. His purpose was to give the Southern Railway Co., as a traffic-bearing instrument, a leading position in the South. The result of his policy is one which can best be answered by any man who has an industrial plant on the Southern Railway today. Such a man will tell you—many of them have told me—that it is worth more to them to be on the Southern Railway lines than on any other lines in the South because the Southern Railway Co. reaches so many points, because the Southern Railway Co. through one management is able to control traffic moving to so many points in the South and to the gateways leading to and from the South.

In expanding the system Mr. Spencer necessarily had the problem of what that system was going to serve. His ideal was that it should serve the industrial South. He sought to encourage and propagate in every way the enlargement of industries on the lines of the Southern. What this policy meant and what it accomplished is illustrated by the statement that, on the purely industrial side, the records of the land and industrial department of the Southern Railway show that during the years from 1900 to 1913, inclusive, 8,337 new manufacturing plants of various kinds, representing an investment aggregating \$500,000,000, were located on the lines of the Southern Railway Co. And during the same period additions were made to 2,486 factories already located on those lines at an aggregate outlay of additional capital amounting to \$100,000,000.

In undertaking to provide for an industrial development in the South it was necessary, in the interest of those industries, that there should be a regular supply of coal. The provision of a source of coal supply to the industrial South was part of Mr. Spencer's problem and part of his action. Our lines in the Birmingham district, before the

organization of the Southern Railway Co., reached coal mines west of Birmingham. Our East Tennessee lines reached a mining district north of Knoxville. Mr. Spencer realized that it was necessary that there should be a further source of coal supply for the industrial South, and especially for the cotton mill district in the Piedmont country east of the Alleghenies in the Carolinas.

He bought, in that interest, the Knoxville, Cumberland Gap & Louisville Railroad, the line extending from Knoxville to Middlesboro, the line technically to Cumberland Gap which had trackage rights into the district on the other side of the mountain. He bought the Knoxville & Bristol Railroad which appears on the map as connecting the K., C. G. & L. Railroad with Morristown. At the time of the purchase of the Knoxville & Bristol road, my understanding is that it was Mr. Spencer's plan to connect the K., C. G. & L. road at some point equidistant, or thereabouts, between Cumberland Gap and Knoxville with a short cut-off to the point of nearest contact with the Knoxville & Bristol Railroad, and rebuild the Knoxville & Bristol Railroad so as to move coal from the Middlesboro district to the southeast through Morristown via the K., C. G. & L. and the Knoxville & Bristol.

That was never done. The quality of the coal mined in the Middlesboro district was a part of that decision. The other part of that decision was the acquisition of the Virginia & Southwestern, and the access which the acquisition of the Virginia & Southwestern gave to the Appalachian coal region.

Without discussing further the details at this time of the acquisition of the Virginia & Southwestern, I mention it simply in support of my general statement that the acquisition of that road and the reaching of the coal on that road was in the interest of the industrial South, and particularly of the mill district in the Carolinas.

THE TRAFFIC ESSENTIALLY A TRAFFIC IN MANUFACTURES: AND ONLY INCIDENTALLY IN COAL.

The traffic of the Southern Railway Co. is a variegated traffic. The Southern Railway has never been and has never considered itself a coal railroad as such, in the sense that the Norfolk and Western, the Chesapeake & Ohio, and the Virginian are coal roads.

I have taken the classification of tonnage moved by the Southern Railway Co. for the first year of its history and compared it with the last year of its history, or with the year ended June 30, 1913. We have not the statistics for the year just ended. Taking the customary groups of classification of tonnage, and dealing in percentages: In 1895 20 per cent of the Southern Railway traffic was products of agriculture. In 1913 11 per cent was products of agriculture, although the total tonnage increased from 1,268,000 tons to 3,500,000 tons. I am using round figures.

Mr. Thom: You mean that is the total tonnage of agricultural products? Not the total tonnage of the road?

Mr. Harrison: Products of agriculture. In 1895 the percentage of the total traffic of products of animals was 2.8 per cent. In 1913 it was 1.1 per cent, although the tonnage of products of animals had increased from 173,000 tons to 323,000 tons.

In 1895 the per cent of the total tonnage of products of mines was 38.1 per cent, and in 1913 it was 40 per cent, the total tonnage of products of mines having increased from 2,345,000 tons to 11,779,000 tons.

Included in this statement of products of mines is a small tonnage in anthracite coal, which has remained practically constant during the whole history of the company, about 50,000 tons per annum—as much in the beginning as in the end. That is, coal used for domestic purposes, more or less as a luxury.

The principal item of coal is bituminous coal. Included in my statement of products of mines, the bituminous coal was 29.37 per cent of the total tonnage of the company in 1895. In 1913 it was 28.95 per cent, although the tonnage had increased from 1,812,000 tons to 8,526,000 tons.

To complete my statement of the total tonnage of the company, the per cent of products of forests in 1895 was 11.47, and 1913 it was 16.98 per cent, the tonnage having increased from 708,000 tons in 1895 to 5,000,000 tons in 1913.

And finally—and what we take the greatest satisfaction in—I come to manufactures and miscellaneous tonnage. Of the total tonnage of the company in 1895 the products of manufactures and miscellaneous was 27.16 per cent. In 1913 it was 30.03 per cent, and the total tonnage had increased from 1,677,000 tons to 8,843,000 tons. It thus appears that for every ton of coal carried, we carried a ton of manufactures and miscellaneous tonnage.

What that means may be illustrated by comparison with the traffic of the coal-carrying roads. Remembering that the tonnage of bituminous coal carried by the Southern Railway Co. in 1913 was 28 per cent of its entire tonnage, we find that on the C. & O. the tonnage of bituminous coal for the same year was 63.68 per cent; on the Norfolk & Western 67.71 per cent; on the Virginian 85.60 per cent.

The point that I wished to make by those figures is that there is a variety of tonnage on the Southern Railway, and that it is not primarily a coal-carrying road; that its duty in carrying coal is primarily to supply coal to the industries on its lines.

Mr. Thom: Is there not this lesson, too, Mr. Harrison, that its policy has built up a very large industrial system on the Southern road as compared with what the coal-carrying roads have built up on their lines?

Mr. Harrison: I believe that to be a fact. I have not the figures to show the number of industries on the coal-carrying railroads, but I know that the Southern Railway Co. has added industries year after year during every year of its history, and the policy of promoting industry has been the policy of the Southern during its whole life. One who travels on our main line through the Carolinas can see the smoke of a chimney practically all the way. It is one of the marvels of the growth of the industrial South. Eighteen years ago when I first went over that line there were very few factories.

Now, it is no miracle that has brought all those factories to the lines of the Southern Railway.

Our growth, so far as the coal traffic is concerned, was at one time

checked by the development of the hydroelectric power. The rivers coming down from the mountains in the Piedmont district have been dammed and water power developed, and at one time a great many of the cotton mills in that district took on electric power in place of coal. That fact had a serious effect upon our policy in relation to our coal traffic. We hesitated because we did not know how far it was going or whether it was necessary or desirable to increase our investment in coal-carrying facilities if we were not to continue to supply those factories with coal as we had in the past.

The extraordinary thing has happened, that, after an experience with that hydroelectric power, most of those factories are now using coal. I do not mean they have abandoned the hydroelectric power, but the growth of the industry has been such as to create a necessity of a steam plant in almost every factory, so that the continued use of coal has been a characteristic of the cotton-mill development, and it is a growing business today, rather than a dying business, as we at one time thought it was.

Senator Chilton: Have you had one general policy about developing your waterpower, or has it been local and confined to the individual business? Have you a general system of development?

Mr. Harrison: Several enterprising men have taken hold of it. It is controlled, as I understand, very largely by a few people.

Senator Chilton: Do you know who the people are?

Mr. Harrison: Mr. Duke, whose name is known in connection with the American Tobacco Co., is one of the largest holders of waterpower. There are others besides; I do not remember their names.

Senator Chilton: Do they build high dams or low dams?

Mr. Harrison: They build all kinds of dams. They have experimented with every form of power.

Senator Chilton: That is a big and open question in my State and I asked merely for the information.

Mr. Thom: The Southern Railway Co. has no interest in any of these water developments?

Mr. Harrison: None at all; it has been a competitor of our coal business wherever it has appeared.

Senator Chilton: But you found that, like the development of the electric railways, it helps both?

Mr. Harrison: It does, sir. We have said that publicly. Mr. Finley said it, and I have said it, that we advocate the development of the hydroelectric power because it develops industry, and there is glory enough for all when you get through.

Senator Tillman: I should think a railroad would want freight rather than glory.

Mr. Harrison: We get the freight, sir; the glory makes the freight.

Senator Tillman: And the freight makes the glory?

Mr. Harrison: They interact.

Supplementing the growth of the coal traffic on the Southern Railway system with the growth of its industrial traffic, I would like to put in a statement showing the number of tons of bituminous coal carried by the Southern Railway every year of its history, showing an increase, as I have stated, of from 1,812,000 tons in its first year to 8,576,000 in the

year 1914 just closed, increasing gradually and steadily during the whole period.

(The statement here submitted by the witness is as follows:)

Southern Railway Co.—Bituminous coal carried.

	Tons.		Tons.
1895	1,812,689	1905	6,114,313
1896	2,185,860	1906	6,356,310
1897	2,056,920	1907	6,615,408
1898	2,468,397	1908	6,485,815
1899	2,969,482	1909	6,312,592
1900	3,519,788	1910	7,408,914
1901	3,941,013	1911	7,881,993
1902	5,241,771	1912	8,568,058
1903	6,021,230	1913	8,526,232
1904	6,215,453	1914 (June estimated)	8,576,586

Senator Chilton: Where is the coal for your factories derived from? Where do you get your coal supply mostly for your factories?

Mr. Harrison: It comes from all of our sources of coal supply, but today the Carolina territory is drawing its coal somewhat from what we call the Tennessee district, north of Knoxville, and somewhat from the Virginia & Southwestern district. The factories in the western part of our territory get a good deal of coal from the Birmingham district. There are competitive conditions which from year to year change that.

THE FINANCIAL HISTORY

I come now to the financial history of the company, which has been so large a factor in everything we have done. In carrying out his policy of expansion, Mr. Spencer was required to resort to various expedients to finance his purchases. The original financial plan of the company was the creation of a first consolidated mortgage for \$120,000,000 at the time the company was organized. Most of the bonds authorized to be issued under that mortgage were reserved to take up underlying bonds already in existence. There was a provision of \$20,000,000 at the rate of \$2,000,000 a year for the future development of the system.

It is evident that that plan was very soon outstripped. The roads which were acquired—like the Memphis & Charleston and our St. Louis division, the L. E. & St. L.—were acquired by purchase money mortgages. Special bonds of the Southern Railway Co. were issued, secured by a lien directly upon the property purchased. Other railroads were bought for cash, or for the exchange of such securities as we had in the treasury, and there was accumulated in that way a debt of \$16,000,000 for the acquisition of railroads.

Mr. Douglas: Will you state during what period of time that was?

Mr. Harrison: I am speaking generally of the period of time from 1895 to 1906.

This debt of \$16,000,000, used in the acquisition of railroads, was

¹Excluding St. Louis division. For purposes of comparison, the 1902 annual report shows 4,828,784 tons carried in 1901, including L. E. & St. L. Ry., July-December, 1900, and St. Louis division, January-June, 1901.

funded temporarily by an issue of five-year bonds, made in 1904. Mr. Spencer was working all the time to a general financial plan, and in 1906 his general financial plan was brought out, consisting of what is known as our development and general mortgage bonds. That was a mortgage for an authorized issue of \$200,000,000 of bonds, of which about half were reserved to take up existing bonds, including the purchase money mortgage bonds which had been created in the interval. It did not take up the first consolidated mortgage bonds, but supplemented that, and it left nearly \$100,000,000 of bonds to be issued from time to time for improvements and betterments of the property. Those bonds were fixed at the time of their creation as 4 per cent bonds. Mr. Spencer sold \$20,000,000 of those bonds at the time of their creation.

Senator Tillman: What did he get for those bonds?

Mr. Harrison: He got 87 for the 4 per cent bonds.

I have here a graphic chart showing the range of prices of 25 railroad bonds from 1904 to 1914. I will ask that this be put in evidence to illustrate that when these development bonds were brought out in 1906, the tendency of prices of railroad bonds had started down already, having been highest in 1905, but it had not yet become apparent that it was a constant tendency.

(The chart here submitted by Mr. Harrison is as follows:)

STANDARD BONDS

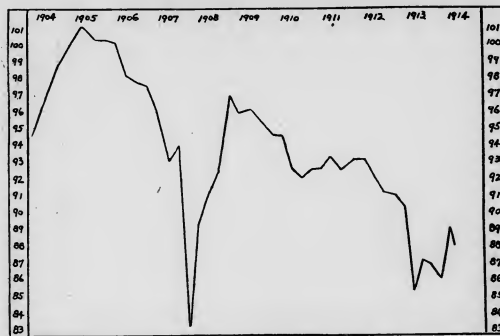


Chart of Prices of Twenty-five Railroad Bonds, 1904-1914

When the first \$20,000,000 of these development bonds were sold, Mr. Spencer believed that the financial problem of the Southern Railway was solved. He was very much elated; he deemed it a great achievement, as it was, to have brought the credit of the railroad to the point where it could sell 4 per cent bonds.

Mr. Lyon: But not at par?

Mr. Harrison: But not at par. He believed that those bonds would be selling in the nineties within a few years, taking rank, as they became seasoned, with other bonds of their class, which were selling in the nineties.

With that confidence in the future, and with that first sale of those \$20,000,000 of bonds, Mr. Spencer invested the proceeds of that \$20,000,000 in improvements and betterments of the Southern Railway property. He began the policy of double track; began the policy of improvement of terminals but within six months after that time he was dead. He had committed the company to large plans, to large contracts, to large obligations during that period, in the confidence that the \$5,000,000 a year of those development bonds which the mortgage provided might be issued for betterments and improvements could be sold currently with their issue.

THE FINANCIAL CRISIS IN 1908.

Upon Mr. Spencer's death we were faced with as serious a difficulty as ever any railroad had—to provide for the accruing maturities of these obligations of construction which had been undertaken. Business was then at a high tide; we were doing a very large business, larger than ever before. The price of bonds, however, had begun to go down, as shown by the chart which I have offered in evidence, and when in the beginning of 1907 we tried to sell, as Mr. Spencer had expected to do, some more of those development bonds to take care of our maturing obligations, the market had dropped to the point where a 4 per cent bond, unseasoned, was not salable at a fair price to the company. They never have been back there since; they have gone steadily down, as shown by that chart.

Mr. Thom: At what price are they now, Mr. Harrison?

Mr. Harrison: I believe the market price of them is about 73.

We met the necessity in February, 1907, by the first issue of short-term notes (we already had a short-term bond, five-year, outstanding). In February, 1907, we created \$15,000,000 of three-year notes. They sold very well. My memory is that we sold them at 95½, which was considered a fair price at the time.

We applied the proceeds of these notes to meeting construction obligations previously assumed, not to anything new. In the autumn of 1907 came on the panic, and in the winter and spring of 1908 was the financial crisis of the Southern.

We had many obligations maturing; we had no money to provide for them. We had no credit. Our friends were willing to do what they could for us, but they said we had no credit; everybody wanted money at once; money did not grow upon trees; and we came in February and March, 1908, as near financial disaster as it was possible for a railroad to go. Our traffic fell away; our earnings decreased; our income was small. There is only one test of railroad credit that I have ever been able to apply with satisfaction, and that is income. A railroad or any other industry with income can always bor-

row money, if its income is large enough to have a safe margin over the additional burden which it assumes in interest. We did not have that margin in the spring of 1908. I spent that winter largely in New York. Mr. Finley spent the winter on the railroad. Mr. Finley's effort was to retrench in every way that it was possible, to cut down the expenses so as to come within our income, and to avoid disaster. He was engaged in a herculean task, and he was doing it diligently and earnestly. My efforts in New York were to borrow \$1,000,000 and \$2,000,000 at a time to tide over this and tide over that, all the time talking some comprehensive plan in trying to promote a condition of mind of our friends who were willing to help us within reasonable limits, that the limits were reasonable, and that they should help us.

In considering this period the other day, I turned up some personal letters, which I wrote to Mr. Finley at the time. They were manuscript letters, written after the heat of a day's work, and I read one or two of them simply to illustrate what was our situation at that time.

Here is a letter which is dated "Tuesday night." It was in January, 1908, although that date does not appear upon it.

We had just borrowed \$2,000,000 from three banks, and paid 10 per cent for it for a short time, three months, I think it was [reading]:

UNIVERSITY CLUB,
FIFTH AVENUE AND FIFTY-FOURTH STREET,
Tuesday night.

DEAR MR. FINLEY: It is evident that the two millions loan must suffice to carry us over March 1; probably even over April 1. Under the circumstances we can not afford to pay out an unnecessary dollar. I suggest you consider an arbitrary order to stop every single bit of construction for which the Southern is advancing money. We know by experience the difficulties which are opposed to all such action, but I believe it can be done by simply shutting down the cash box. Of course the contractors will howl. We will hear of the dread "retained per cents," and there will be trouble, but it does not seem to me that construction contracts are any more sacred than contracts for ordinary supplies, and we have kept the supply men waiting without mercy, many of them for several months. This action would take courage, but it takes courage to live these melancholy days.

Faithfully yours,

FAIRFAX HARRISON.

Another note [reading]:

80 BROADWAY,
New York, February 20, 1908.

DEAR MR. FINLEY: Our financial pot is really boiling at last. This morning we found that Mr. Woodward was leaving at noon to-day to spend several days at his place in Maryland. So in response to a hurry call I got Steele and Mr. Iselin to meet at the Hanover Bank and the whole question was discussed. Both Mr. Woodward and Mr. Iselin agreed to the plan which was to attempt to arrange a loan of \$10,000,000 on development mortgage bonds at 60, putting it up to the two insurance companies to take a substantial part to protect the large investment they already have in the Southern. Steele has since seen Mr. Baker, who is an important factor in Mutual Life, and has sounded Mr. Randolph. The latter says that Mr. Claffin must deal with us for the N. Y. Life, so a meeting is being arranged for to-morrow morning at 10 at the Financial Emergency Hospital—Mr. Morgan's library. At that hour please think of me as going under ether. I will wire you the result of the operation as soon as there is anything to say.

Faithfully yours,

FAIRFAX HARRISON.

Here is another letter, dated March 2, to Mr. Finley [reading]:

80 BROADWAY, March 2, 1908.

DEAR MR. FINLEY: There is a thick fog over New York to-day, but whether this is an explanation or not I can not yet see daylight ahead for the Southern. I have been on my legs all day running from one man to another with bland words, but we are still blocked by the New York Life, which declines to go into the smaller plan unless assured that in some way the company will be provided for over January 1 next. We are working steadily, and I am not yet fearful of the ultimate result, but I can not help thinking of Ansley sitting on his diminishing cash box with his hopeful eyes glued on the horizon whence comes the cash in flush times.

Faithfully yours,

FAIRFAX HARRISON.

Another note. I am reading these for the purpose of laying a foundation for what I am going to say, as a reason why we did not do things. [Reading:]

UNIVERSITY CLUB,
FIFTH AVENUE AND FIFTY-FOURTH STREET,
March 4, 1908.

DEAR MR. FINLEY: I saw Brownell of the Erie this afternoon in connection with the C. N. O. & T. P. stock question. It is pitiful how parallel are their straits and ours. When I went into his room he was dictating a letter to a commission explaining why the Erie could not build a new station somewhere, and he told me that Mr. Underwood has to-day been talking to committees of employees proposing wage reduction, to be met by the same stereotyped refusal we have all had. They are now meditating appeal for mediation under the Erdman law not because they expect any relief, but to avoid the horns of the dilemma, which are strike or continued high pay. Brownell says that if there is a strike there will be receivership in a week, while if there is no strike there may be no receivership for two weeks. Seriously, they are up against the same proposition we are, with maturing capital obligations, absolutely no public market, and despairing bankers. What this spring may bring forth for us all, God knows. I still hope, however, to find the money to carry us along at least until the July 1 payments. It is difficult to decide what is best for the property in this morass where we are floundering.

Yours,

F. H.

The result of that winter was a conference at the residence of Mr. J. P. Morgan, Jr., on April 11, 1908. At that conference Mr. J. P. Morgan, Jr., and his partners, Mr. Charles Steele, Mr. E. T. Stotesbury, Mr. George W. Perkins were present, and I met them. What was sought to be determined was whether it was possible to do anything to carry the Southern Railway over or whether the Southern Railway should be allowed to go under. You can well understand that I attempted to be eloquent on that occasion. I was very cheerful about the future. As my friend Steele remarked, my "sentiments were good ones to have when you want to borrow money; they cheer if they do not inebriate." But I am glad to say that the result of that conference was that those gentlemen pledged the firm of J. P. Morgan & Co. to see us through, and to find ways and means to provide money to get us "over the hill," and they did.

Senator Chilton: You did not mind using the word "psychological" in that discussion, then, did you?

Mr. Harrison: No, sir. [Laughter.] In May, 1908, following that conference, we created an issue of \$15,000,000 of convertible 6 per cent,

three-year notes—a most extraordinary thing. They had every device that could be suggested put into them to make them marketable. They were secured by development bonds, by some Virginia & Southwestern Railway bonds; by some Tennessee Central bonds, which we had, and various things. They were callable, and they were convertible into development bonds at a price, but anyway, they were sold, and the money got us over the difficulties.

Mr. Lyon: What did you get for those, Mr. Harrison?

Mr. Harrison: We got 97 for those.

Mr. Lyon: Did that exclude commission?

Mr. Harrison: That was net to the company.

Mr. Lyon: Do you know what the commission was on those bonds, Mr. Harrison?

Mr. Harrison: Well, the way I have dealt with J. P. Morgan & Co. in selling securities has been usually to get them to tell me what they think they can sell them for, and then allow not exceeding 2 per cent commission. I do not remember in this case whether that was the process by which we arrived at 97 or not, but that was the usual practice.

Senator Chilton: You mean to say, then, that, commission and all, they netted the company 97?

Mr. Harrison: Yes. If they sold those bonds at 99, we sold them to them at 97, and they got two points as their commission.

We had to face the approaching maturity of those \$16,000,000 of 5 per cent five-year bonds which Mr. Spencer had created, and in 1909 our situation had very materially improved. I did not state that I had the memorandum here; that the aggregate of the maturing obligations which we faced, after Mr. Spencer's death, was about \$55,000,000, which had to be taken care of in the next few years and for which he had provided about \$20,000,000.

Mr. Lyon: How many years?

Mr. Harrison: In three years.

In 1909 the market conditions had materially improved. Our own situation had improved; our earnings had picked up; the results of the economies Mr. Finley was practicing were apparent; and we had an increasing income to show, and our friends made a tremendous effort and accomplished the sale of \$40,000,000 of our development and general mortgage bonds—namely, the bonds which were pledged under those 6 per cent notes and the bonds which were reserved for the five-year bonds.

Mr. Thom: Mr. Harrison, to interrupt you there one minute, was not one of the economies that Mr. Finley put into operation a 10 per cent cut upon the officers of the company?

Mr. Harrison: It was.

Those development bonds which had previously sold, the first issue at 87, we sold in 1909 practically \$40,000,000 of those bonds to take care of our maturing obligations—\$5,000 in February, 1909, at 80; \$500,000 in March, 1909, at 75; \$20,833,000, April, 1909, at 75; \$5,000,000, April, 1909, at 80; and \$14,995,000 in May, 1909, at 80.

Those were the 4 per cent bonds. Those are the bonds that are selling at 73 today.

The result of all that was that we funded \$31,000,000 short-term obligations in 1909, and we were "over the hill."

Those difficult financial operations created a situation which brought it about that during Mr. Finley's administration we did not have one cent of capital to apply to any new development on the Southern Railway. The new capital which was provided was applied to take care of existing obligations.

Mr. Douglas: Throughout his entire administration?

Mr. Harrison: Throughout his entire administration, with the single exception of equipment. We were able to sell equipment obligations at various times during Mr. Finley's administration, and we kept up, to the extent of our ability, our obligations to provide new equipment in that way, but it is a fact that Mr. Finley never had any new money to do anything that he planned to do. He was paying for the things which had been planned and which were begun in the previous administration.

To go briefly through the rest of the financial history: In February, 1910, there were, first, \$15,000,000 of three-year notes matured, and were redeemed, \$10,000,000 being extended to 1913; in February, 1913, the remaining \$10,000,000 of notes of 1907 matured, when \$5,000,000 were retired, and \$5,000,000 were extended for three years.

As a result of the financial operations from 1906 to 1913 there accrued a discount amounting to \$12,951,000; and during Mr. Finley's administration all of that was charged off through profit and loss.

MR. FINLEY'S ADMINISTRATION ONE OF BUILDING CREDIT AND ORGANIZATION.

To come back to what Mr. Finley did for the improvement and betterment of the property—when I say that he had no new money, I said that he had no new capital—he managed the property extremely well, and produced a surplus income each year during his administration; he was able to apply that surplus income to improvements and betterments in an amount during that seven years of approximately \$31,000,000, plowed into the property.

Mr. Thom: Was there not during a considerable portion of that time a suspension of dividends?

Mr. Harrison: Yes, of course, from the time of the panic on dividends were suspended, and they were not immediately resumed again; and then only in part until the growth of the income during Mr. Finley's administration made it possible to do the things which he was trying to do, and at the same time leaving something to be paid to the stockholders, as we all felt they were entitled to.

Mr. Thom: Preferred stockholders?

Mr. Harrison: Preferred stockholders only. With this \$31,000,000 plowed into the property, Mr. Finley was able to do a great many things. The growth and development in the property during that period is

apparent everywhere. Mr. Finley was not able to spend any money in large sums on any one thing; he was not able to undertake any terminal developments anywhere; he had the obligation of all these lines of railroad on his hands; he had the obligation of a great many different kinds of industries to be provided for; he had the obligation of duty to an entire territory, and he meted out the sums of money which he had available for improvements from time to time here and there, completing station buildings, completing sidetracks, and extending doubletrack, doing all the things which have made the Southern Railway grow during this period, but he never was able to undertake, as he wanted to do so often—I have heard him long for the money to undertake some terminal developments at different points in the South. He never had the money in large enough quantity to do that.

If we may characterize Mr. Spencer's administration as "making the map of the Southern," we might characterize Mr. Finley's administration as one of "building credit and organization." He built credit. The result was that as soon as the poor man was dead, and I became president, I borrowed \$10,000,000 to go and do those things that he wanted to do so much—that was the credit he had built. He did more than that; he built organization. I believe that the Southern Railway Co. has as good and efficient and loyal and well-trained and as patriotic an organization today as any railroad in the country. That has been built during Mr. Finley's administration; and I say that with the greatest respect to Mr. Spencer. When Mr. Spencer took over all these roads that he bought, what did he have? The railroads in our territory were entirely inadequate in the modern sense until recently. I do not mean merely railroads of the Southern Railway, but all railroads in the South. Why? Because the density of traffic, the density of population, the things that make a railroad grow, have not existed in the South until recently. The collection of railroads which Mr. Spencer made was a collection fit to go into a museum. They were strongly located railroads; that is, they were between communities that developed into the industrial South. But they had to be built from the moment they were taken hold of. Look at the map. The map is the same today as it was then, but the railroads are very different. They were short railroads. They were pieced-together railroads—a little railroad to serve a local traffic has no terminals, and I think if I had my choice between terminal and running track, I would take the terminal every time.

You can make money with terminals; you can do it both by getting traffic and by facilitating the movement of traffic. When the train gets out on the running track, it is off, and you can keep it going, but the congestion always comes at the terminals. When there is a volume of traffic greater than your capacity to handle, you see it at the terminals, and there you find the terminal expense running away from you. The completing of terminals was the first thing that Mr. Spencer had to provide for his aggregation of railroads. He had to iron them out into a complete whole, and that meant building terminals.

The Chairman: Mr. Harrison, if it will not interrupt you, we will now take a recess and meet again at 3 o'clock.

AFTER RECESS.

At the expiration of the recess the sub-committee assembled.

The Chairman: Proceed.

Mr. Thom: Mr. Harrison, will you please proceed with your statement?

Mr. Harrison: When we adjourned for recess, I had been discussing the financial history of the Southern Railway, showing how that was responsible for what the Southern Railway has done and what it has not done. I showed that the difficulties of the Company were brought about by the expansion ending in 1906, and the necessity of providing for the capital obligations assumed at that time. I showed also what kind of railroads we acquired; in other words, the necessity for improvement of them, as part of our financial problem.

THE PHYSICAL DEVELOPMENT OF THE SOUTHERN'S LINES.

To show what we accomplished in the way of improvement, I would like to read a page of a statement which I prepared, to be issued by the voting trustees on the dissolution of the voting trust on July 1st, last. In this circular, which has been published, is rehearsed what has happened to the Southern Railway in the South during the 20 years of the history of that voting trust. What I want to read is the paragraph about physical development. (Reading:)

"As the result of the financial plans outlined above and the policy followed during the early years of the history of the Company of making additions and betterments to the property through operating expenses and income, expenditures have been made for additions to the Company property from July 1, 1894, to July 1, 1913, as follows:

BETTERMENTS THROUGH NEW CAPITAL:

New Equipment	\$35,539,826.71
Additions and Betterments, such as double tracks, side and passing tracks, terminals, yards, stations, heavier rail, bridges and improved buildings.....	44,263,175.89
Real Estate—Right of Way.....	3,869,041.04
Construction of new lines and extension of existing lines..	10,731,421.52
	<hr/> \$94,403,465.16

BETTERMENTS THROUGH INCOME:

Various improvements, additions, and betterments, the cost of which was charged against operating expenses or income, representing the expenditures over and above ordinary maintenance expenses, of approximately.....	30,000,000.00
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Total (say)\$124,403,465.16

These expenditures have secured results of physical development which may be stated generally as follows:

On June 30, 1895, the entire operating mileage was single track. On June 30, 1913, 385.39 miles of double track, largely equipped

with automatic signals, had been provided on grades and alignment substantially revised in the interest of economical operation, and in addition the ratio of side track mileage to total main line miles operated excluding trackage rights, had increased from 16.52% in 1895 to 35.02% in 1913.

All the old iron rail in track has been replaced with steel of modern section and increased weight.

Wooden bridges have been generally replaced with steel structures.

Many of the principal terminals, both passenger and freight, have been enlarged and reconstructed, and modern freight classification yards and terminals have been provided at several places.

Modern shops have been constructed at Coster, Tenn., and at Spencer, N. C., and existing shops at other points have been enlarged and modernized.

There is much more work of this general character to be undertaken to keep the plant abreast of the commerce which it may be expected to handle.

The rolling stock equipment has been increased as shown by the following statement:

	1895	1913
Locomotives	623	1,632
Passenger-Train Cars	487	1,157
Freight-Train Cars	13,924	49,512
Freight-Train Cars per mile of road operated.	4	7

The new equipment provided is of largely increased power and capacity and of modern construction.

That is largely the accomplishment of Mr. Finley, these improvements. Though many of them were begun during Mr. Spencer's administration.

THE PRESENT POLICY OF THE SOUTHERN.

Before passing on to the next question, I would like to add that the policy of the company today and for the future, so long as I have anything to do with it, is not more railroads, but better railroads. We have during this last winter provided \$10,000,000, to be invested in terminals. We have also made financial arrangements to double track our entire main line from Washington to Atlanta, 649 miles; and I have said to every one who has proposed that we should buy a railroad or build a new railroad that we were going to spend our money and resources in improving the railroads we have until they are first-class railroads in every respect, as some of them are today.

FOREIGN HOLDERS OF SOUTHERN STOCK.

In discussing this morning the names of individuals whom it has been charged controlled the policy of the Southern Railway, I thought, as I was testifying, that it might be of interest to know who does control the Southern Railway, and from the list of stockholders prepared

at the dissolution of the voting trust I have since obtained, and now produce a statement of certain large holdings of foreign concerns of the voting trust certificates, with respect to the common stock of the Southern Railway as shown by the stock ledger of June 8, 1914. This is a list of seven stock exchange houses in London and two in Amsterdam, holding together 392,420 shares of the common stock, or 32.7 per cent of the entire \$120,000,000 of the common stock of the company. I do not know who those stock exchange houses represent, but the stock stands in their names.

Mr. Thom: In speaking of that list, Mr. Harrison, I understand you to be giving a group of those that appear as large holders. Do you mean to suggest that those men actively control the policy of the Southern Railway?

Mr. Harrison: I do not. I do not know any of them myself. I never have had any communication with them. They are simply names to me, and they are names on our stock list of those holding the largest amounts of our stock.

(The list of certain large foreign stockholders submitted by Mr. Harrison is in words and figures as follows:)

Statement of certain large holdings by foreign concerns of voting trust certificates with respect to common stock of Southern Railway Co., as shown by the stock ledger as of June 8, 1914.

Name.	Address.	Number of Shares.
Leon Bros.	London, England.	103,340
Huggins & Clark.	do.	66,640
Marks, Bulteel, Mills & Co.	do.	61,060
R. Raphael & Sons.	do.	60,800
S. Japhet & Co.	do.	31,800
J. S. Morgan & Co.	do.	16,610
Stoop & Co.	do.	10,170
Adolph Boissevain & Co.	Amsterdam, Holland.	29,640
Arnold Gilissen	do.	12,360
		<hr/> 392,420

Per cent of total issue, 32.7.

THE VIRGINIA AND SOUTHWESTERN PURCHASE.

I come now to the question of the purchase and development of the Virginia & Southwestern Railway. In enumerating the names of those whom it was charged controlled the policy of the Southern Railway I did not mention Mr. McHarg. There has been a good deal of testimony that Mr. McHarg influenced and controlled the policy of the Southern Railway Co.

On May 1, 1906, Mr. Spencer made a contract with Mr. McHarg—that contract was nominally with Oliver H. Payne, Grant B. Schley, and H. K. McHarg, for the purchase of the \$2,000,000 capital stock of the Virginia & Southwestern Railway Co. at \$200 per share, or \$4,000,000 in all. The consideration was to be paid in instalments. On June 15, 1906, \$1,000,000, and the remainder at six-month inter-

vals, instalments of \$500,000, with interest at 5 per cent, running up to July 1, 1909.

That contract was ratified by the board of directors of the Southern Railway. There was a good deal of criticism in the board of the price paid at the time the contract was ratified, just as there has been at this hearing.

I asked Mr. Spencer why he paid \$200 a share for that stock when he handed me the contract or the memorandum for the contract. His answer was that he could not get it for less; that he wanted the railroad; that there was competition for the purchase of the railroad; that he deemed it necessary to the integrity of the Southern Railway system that an entrance should be assured to the Appalachian field by the Virginia & Southwestern Railway. That is all I know about the reason why \$200 a share was paid for that stock.

It may be appropriate to say here that we have spent \$4,000,000 on additions and extensions of that road and improvements, and that it is today earning the interest not only on that \$4,000,000 but upon the \$2,000,000 more in the equipment trust, upon the original \$2,000,000 of bonds that were on the property, and is paying us 10 per cent on our \$2,000,000 of stock; in other words, 5 per cent on our investment in the stock. We are carrying 2,000,000 of tons of coal and coke over that railroad today. We have added very largely to the equipment of it; we have developed the railroad, and we believe it to be a satisfactory investment as it stands, whatever the price was in the beginning.

Mr. Thom: In other words, Mr. Harrison, in the development of the Southern Railway system, a thing which might not be wanted at all at one time might subsequently be desired, and the fact that we refused to buy it at one time at a lesser price, when we did not want it, could not control the policy in getting it at the lowest price we could when it became an essential part of our program?

Mr. Harrison: It did not control, and I have entire confidence in the integrity of Mr. Spencer's motive in buying it at the price he did.

I met Mr. McHarg for the first time after that contract was made. It was given to me to work out the contract with him, and I saw Mr. McHarg frequently from that time, May, 1906, until July 1, 1908, when we completed our payments.

Mr. McHarg is one of the hardest traders that ever anybody came in contact with. He is an able, strong, vigorous man. He takes care of himself wherever he can, and he does it very well, but he is a fair man. He is a man who has never been underhanded in my experience with him, and he had me by the throat in the winter of 1908—I never failed to respect him; never knew him to do an unworthy thing; I never knew him to suggest an unworthy thing.

One of our difficulties in the winter of 1908 was that we had to pay, on the 1st of January, 1908, \$500,000 to Mr. McHarg under our contract, and he was inflexible; and to make another payment of \$500,000 on the first of the following July. And, more than that, we had contracted to complete the Black Mountain Railroad from Appalachia to

the Black Mountain field, which cost \$1,000,000, and we had contracted to complete the Holston River line, from Moccasin Gap to Rogersville branch of the Southern Railway, which cost \$2,000,000 or more. In addition to paying for the stock, we had to provide the capital for those construction expenditures. We suspended a great deal of construction, but Mr. McHarg was insistent during all that winter that we should go on with the construction on the Virginia & Southwestern; that we should provide the facilities to take the coal out of that region into the south-east. He never let up on us on that, and we did not have the money. We had no source of providing the money, and that was one of our principal difficulties during that time. Finally, as I have testified this morning, we did make provision for \$15,000,000 in May of 1908, which enabled us to face the 1st of July and Mr. McHarg, and, with this assurance, then and there we made a new bargain with Mr. McHarg. We had funded all of the construction expenditures on the Virginia & Southwestern Railway in a new mortgage, called the "first consolidated mortgage," which was created on April 29, 1908, and provided for a total authorized issue of \$7,000,000 of bonds, of which \$2,000,000 were reserved for the old first mortgage bonds, and the remaining \$5,000,000 were to be used for purposes which were enumerated in the mortgage, and which were the construction I have been testifying about, and \$1,000,000 provision for equipment.

We agreed with Mr. McHarg that on the 1st of July, 1908, we would anticipate the three final payments on his stock and pay him \$1,500,000, and at the same time he agreed, and we felt that we had accomplished something when he did, to buy the first \$1,500,000 of the new Virginia & Southwestern bonds. In other words, to put that much of our money back into the property. The new bonds were not marketable at the time, but Mr. McHarg knew them and knew what the property was, and was willing to do it. He paid 90 for those bonds, but in doing that he stipulated that \$1,000,000, which was reserved under the mortgage for additions and betterments to be issued thereafter, should be applied upon the completion of the Holston River line. That was the condition of his purchase of those bonds. That condition was ultimately carried out. On the 1st of July, 1908, Mr. Finley was elected president of the Virginia & Southwestern Railway. Prior to that time the operation and management of the Virginia & Southwestern Railway had been left in Mr. McHarg's hands. We had not paid for the stock, and, although the contract provided that we might assume the management if we wanted to, we were constantly for the two years after Mr. Spencer's death on the edge of whether it would not be better, in the desperate straits the Southern was in then, to forfeit what we had paid and let it go; and, having that possibility in view, we did not ask Mr. McHarg to give up the management of that railway and ourselves assume that responsibility. When we paid for it we did assume the responsibility for it, and we then changed the policy of that railroad in some respects. For a time—for nearly two years after July 1, 1908—Mr. Finley and I were the only Southern Railway

officers who were officers also of the Virginia & Southwestern Railway. The officers who had been in charge of it, with the exception of Mr. Newton, who as vice-president in charge represented Mr. McHarg, continued to operate it. Those officers became practically Southern Railway officers and most of them are in our organization today.

FUEL PURCHASES IN THE APPALACHIAN DISTRICT.

It was in February, 1911, that the operating organization of the Southern Railway was spread over the Virginia & Southwestern Railway. We had found that there were some differences of opinion between the local management of the Virginia & Southwestern Railway and the local management of the Southern Railway, with which it connected, and we deemed in the interest of efficiency of management that the ranking officers of the Southern Railway should have their jurisdiction spread over that line, and that was done. It was then that the general manager of the Southern Railway recommended the purchase of fuel coal for the Southern Railway from the Virginia & Southwestern mines. He did that after tests with the coal. He had to pay a freight rate to the Virginia & Southwestern Railway, as compared with hauling the coal from Middleboro over the Southern Railway. Taking Morristown as the point on the map, the difference was the difference in cost between \$1.72 and \$1.39. The quality of the coal was considered. The coal taken was the best of the coal in the Appalachian region, from what is known as the Imboden seam. After an engine test scientifically made by the mechanical officers, it was deemed, and it has been ever since deemed, that it was more economical to pay \$1.72 for that coal than to use the other at \$1.39, and on the experience of units of engine efficiency, which are contained in the reports of operations, and which I study very carefully, I am entirely convinced myself that that conclusion is correct.

THE RATE POLICY OF THE SOUTHERN.

I will say a word about the rate policy of the Southern Railway Co. The Southern Railway inherited a rate policy in the South which was almost peculiar to the South, namely, the basing point system. It was a system which dated from the first construction of the railroads there. It was a system by which a lower rate was made to a competitive point, usually competitive with water at the beginning, than was made to points intermediate; and for many years, as the long-and-short haul clause of the law read, it was justified by the commission and by the courts, until finally the law was changed. That system of rate making had the advantage of building up distributing points in the South when there were very few distributing points in that section. It was undoubtedly a policy of wisdom at the time in the result that it had upon the South. Whether it is a wise policy today is one which has been settled by the opinion of Congress in enacting that such a thing can not be done.

Mr. Thom: Not an absolute prohibition now?

Mr. Harrison: No. The commission has the power to vary it. I myself look forward to the time when that system of rate making will be done away with. I believe it is a matter of statesmanship to accomplish it.

The Southern Railway during its troubles has not had any ability or any margin to make any experiments, but the Interstate Commerce Commission is working on it now and the railroads are working on it now, and I hope that some method will be found to accomplish the result of equality of advantages in the communities which have grown up in between the distributing points in the interval and at the same time preserve the revenues of the company.

With that limitation, which has caused a great deal of agitation throughout the South, that we were unfair in favor of one community as compared with another, that there were discriminations, we have not found that our rates are objected to by the Southern people. I have again and again had it said to me by responsible representatives of communities, "You put us all on an equality and we do not care what the rate is." Our rates in the South are higher than the rates in the East and the Middle West. They must be so, because our population is sparser, our traffic is not as heavy. Somebody has to pay for the transportation. The rates have been adjusted from time to time and have been adjusted downward steadily. I do not believe that they could have been reduced any faster than they have been. The first object of the rate making, as I have understood it—I am speaking of a policy, for I am not a technical traffic man—being to secure the ability of the industry or a community to use what they want to use under an adjustment of rates, and, in the second place, to protect the revenue of the company in order to make the railroad go. Those have been our limitations.

THE COAL TRAFFIC ON THE SOUTHERN.

I come now to the specific question of the coal traffic. I showed this morning, by a statement, how the coal traffic in bituminous coal had steadily grown on our railroad almost ton by ton with the manufacturing and general merchandise business on the railroad. I showed this morning how our prime interest in the coal business had always been to provide coal for the industries local on our lines. I showed how the hydroelectric development in the southeast had affected our coal business, or we thought it had affected it, and it made us hesitate in provision for the future. At the same time there was a competing railroad built into the heart of our territory, the C. C. & O.

Senator Chilton: What is that?

Mr. Harrison: It is the Carolina, Clinchfield & Ohio, what is known as the Clinchfield road. It was built from this Appalachian region, which we have been talking about, to Spartanburg, into the middle of the mill district of the Carolinas on our line.

That railroad was immediately a competitor with us in the car-

riage of coal, and a serious competitor. I said to Mr. Potter, the president of that railroad, the other day, and I sincerely meant it, and I say so now, that however much the construction of that road hurt us at the time, I now regard it as a blessing to us, because it relieved us of a responsibility which we were not at the time in a position to meet ourselves. We could not at that time have provided either the equipment or the railroad to move the amount of coal for which the demands were growing in that region; and while it took business away from us, it enabled the mill district in the Carolinas to secure coal and grow, and that is our interest in the future in the South.

Senator Chilton: Was that road built or not to develop some large coal holdings that the promoters of the road owned?

Mr. Harrison: It is our understanding that they are much the same people owning the railroad who own the coal.

Senator Chilton: Do you know who they are?

Mr. Harrison: Well, merely by information.

Senator Tillman: The company owns both.

Senator Chilton: I am speaking of the men who originally built it. As I understand, several men bought several hundred thousand acres of coal land in there and built that railroad. Mr. Winder went there to develop that coal and built that road in there, and Winder used to be down in our country, and I understood he left there and built this Clinchfield road.

Mr. Harrison: He was there at the beginning or inception of that railroad.

Answering your question, I have understood Blair & Co., of New York, and Norman B. Ream were considerably interested in that property. I have never seen a list of their stockholders, and I am speaking merely from hearsay.

Having that situation of the necessity of providing coal for the industries on our own lines, having these setbacks to our coal tonnage, of the hydroelectric development and the construction of the C. C. & O., we were about able to hold our own. As we came out of our difficulties and emerged, we had another problem on our hands. The operators on the Virginia & Southwestern, all of them—Mr. Dulaney was one of them—had proposed from time to time that it was necessary for the large development of that field to provide a terminal for tidewater coal at Charleston or some other point on the South Atlantic coast. We were never convinced that the time had come for that kind of a development. We were never convinced that we were able to provide the facilities to move coal over our railroad in the quantities necessary for profitable movement or to provide the facilities at Charleston that we required. That demand for that tidewater terminal at Charleston increased with the years. Mr. Wentz, of the Stonega Co., urged it upon us, and Mr. Newton, of the Virginia Coal, Iron & Coke Co., urged it upon us. Mr. Dulaney had urged it upon us. During that time, in 1909, negotiations began with Mr. Potter, of the C. C. & O. He had his railroad at Spartanburg, and he wanted to go on to Charleston and have a coal terminal and have a coal business at Charleston.

One of the things which held us back, and it all comes back to the same explanation that I give of our financial situation, was the physical condition of our railroad between the Appalachian field and the Charleston terminal. We were not convinced that a lucrative traffic could be developed, and we were not convinced that we could handle that traffic at any rate which would move the coal at a profit. To illustrate some of the reasons that we had in our minds: The distance from Appalachia to Charleston on our railroad and the Virginia & Southwestern is 478 miles. The distance on the Chesapeake & Ohio from its assembling point, Thurmond, to Newport News is 381 miles; the distance on the Norfolk and Western from the Pocahontas field to Lambert Point is 370 miles; from another region, namely, Norton to Lambert Point, it is 473 miles.

The distance on the Virginian Railway from their coal field to Norfolk is 441 miles.

THE PHYSICAL CHARACTERISTICS OF THE SOUTHERN AS COMPARED WITH THE COAL ROADS.

The mileage is one thing and the physical characteristics of a railroad are another thing. The Norfolk & Western has spent a great deal of money very intelligently to provide facilities for moving heavy tonnage of coal straightaway to tidewater. The Chesapeake & Ohio, with a better natural grade, in the first instance, has done a good deal of that, too. They have got good railroads today, and can move coal very cheaply. We have not developed a coal railroad in that sense.

Senator Chilton: The Virginian is a good line?

Mr. Harrison: The Virginian is a very good line. I have some comparative figures about the Virginian which I will give you.

On the Southern Railway and Virginia & Southwestern line there are heavy grades, on the Virginia & Southwestern amounting to as much as 2½ per cent. On the Southern Railway between Bulls Gap and Charleston there are maximum grades of 80 feet to the mile.

Senator Tillman: Going south?

Mr. Harrison: Going south, with the coal.

Senator Chilton: You are speaking of your own line?

Mr. Harrison: I am speaking of our own line over which this coal must move to Charleston.

These grades are not concentrated at any one point and the line is a broken one. Between Bulls Gap and Spartanburg we have several pusher grades and the maximum load that can be obtained is about 1,600 tons per train. Between Charleston and Spartanburg the ruling grades are approximately 35 feet to the mile. On this line it is possible to handle about 2,400 or 2,500 tons to the train.

For comparative purposes we will take the Virginian Railway. This was a specially constructed railway for the purpose of handling coal from the coal fields to tidewater, and at heavy expenditure low grades were obtained in order to handle the traffic at the minimum transportation cost. I understand that the railroad, including its equipment, cost approximately \$54,000,000 to build, which is approximately \$110,000 per mile for actual

construction of the single track line. Its coal assembling district it has varying grades, some of which are as high as 2 per cent. It has a pusher grade about twelve miles in length, for which they have provided special equipment. After reaching the summit of the Alleghanies with 2 small pusher grades, the maximum grade of which is only six-tenths of one per cent, they have about 365 miles with a ruling grade of two-tenths of one per cent, or approximately $10\frac{1}{4}$ feet to the mile. On this railway, with motive power similar in size to our mikado engine—that is the largest type of engine which we use—they are able to handle as many as 100 coal cars, of 50 tons capacity, and their usual train-load is 90 cars, or approximately 6,750 gross tons per train.

Take the Norfolk & Western. Their principal coal field is the Pocahontas field, which lies a short distance from Bluefield. Through their coal assembling territory, west of Bluefield, they have maximum grades of about two per cent. On these grades they have special pusher arrangements. From Bluefield to tidewater the company has spent large sums of money and they have, with the exception of the grades from Walton to Christiansburg, reduced the grades to a maximum of about 30 feet to the mile, and consequently they have a low cost of handling their coal traffic.

Even the grade between Walton and Christiansburg, which is on the dividing mountains between the waters of the Atlantic and the Mississippi, their maximum grade is one per cent. In order to obtain its favorable grades, they have built an expensive double track line from Roanoke to Lynchburg, and have also built an expensive cut-off in the vicinity of Petersburg. With these improvements they are able to run coal trains with a tonnage of from 4,000 to 6,000 tons.

Next take the Chesapeake & Ohio Railway. Their coal district lies between Thurmond and Handley. This railroad has the most favorable grades from its coal territory in the New River district, which is the field where most of the tidewater coal originates. It has a maximum grade eastbound of 21 feet to the mile until they reach the mountains, where it is increased to 30 feet to the mile. From the summit of the Alleghanies, near Alleghany Station, they have practically a descending grade through Clifton Forge to Newport News, and they are able to handle trains of from 90 to 100 cars without difficulty, or from 6,000 to 7,000 gross tons. From Clifton Forge to Newport News they follow closely the valley of the James River. This railroad is the most favorably located one for grades and curvature through the Alleghany Mountains, but even on this location the cost of getting between the waters of the Mississippi and the waters of the Atlantic was a very bold piece of work, and tremendously expensive. It is currently reported that it cost more than \$200,000 per mile to build through these mountains.

In general, these 3 railroads—the Virginian, Norfolk & Western and the Chesapeake & Ohio, have specialized on this coal traffic. They have not a heavy amount of passenger service and, therefore, handle their freight trains at low speed, which permits trains to be loaded to their full capacity. They are in competition with the coal fields of the Baltimore & Ohio and Pennsylvania, which are nearer tidewater than theirs and, consequently, they have been compelled, in order to participate in

this business, to get the maximum train loads and otherwise specialize on the coal traffic.

For the Southern Railway, with its diversified traffic and diversified conditions, it has not been possible to concentrate its efforts on the coal traffic without seriously injuring its ability to serve the other traffic which is essential to the country which it serves. Furthermore, until recently the coal mines of the Southern Railway have not had a surplus of coal which was available for tidewater movement. The domestic market was available and better prices could be obtained by shipping to interior points.

The distance from the coal fields of the Southern Railway to Norfolk are so much greater than any other line that it is not feasible to move the coal from those mines to Norfolk in competition with the shorter hauls of the other lines. Even to Charleston the mileage is nearly 20 per cent greater from the Southern Railway coal fields than the coal fields of any other line to tidewater. In order for the Southern Railway to handle coal to Charleston in large and paying quantities, it will be necessary for large sums of money to be spent in reducing grades, improving curvature and building cut-offs. The company will only be justified in going to this expense when it is fully demonstrated that the coal fields of Southwestern Virginia can successfully compete with those of Pocahontas, New River and others, and that the mine operators are willing to ship through that port in large quantities.

I have had our engineers make a rough estimate of what it would cost the Southern Railway to make the obvious improvements, on its lines from Appalachia to Charleston for the handling of coal profitably. This estimate includes a terminal at Charleston. The aggregate is \$11,300,000.

Senator Tillman: Right there, Mr. Harrison, may I ask you a question? Mr. Thom on Saturday or Friday announced as the policy of the Southern Railway and that policy was published in all our papers, that the Southern Railway is going to build coal terminals at Charleston. Is that true?

Mr. Harrison: That is the fact; I will come to that.

Senator Tillman: You are telling us what it is going to cost.

Mr. Harrison: I want you to realize what the problem is, Senator.

Senator Tillman: I know it takes money to build railroads on the level and in tunnels through mountains.

Mr. Harrison: That is the physical problem.

THE CHARLESTON COAL TERMINAL.

I come back immediately to the question of the Charleston terminal. These considerations which I have been suggesting, Senator Tillman, were largely what held us back on this matter. The pressure became greater, as I have said, and Mr. Finley took up negotiations with Mr. Potter with regard to the construction of a terminal at Charleston, with the understanding that the C. C. & O. coal would move over the Southern Railway from Spartanburg to Charleston. I believe the correspondence between Mr. Finley and Mr. Potter has been introduced in evidence.

Senator Tillman: Right there, if I may—the people of Charleston are highly elated now at the prospect of getting the Clinchfield to build

terminals and the Southern, too. I, myself, do not believe the Southern is going to build there. What have you to say to that? You have already outlined the amount of money it is going to cost.

Mr. Harrison: Yes.

Senator Tillman: Is the Southern willing to put that money there?

Mr. Harrison: Not to put the \$11,500,000 at this time, but it has put in a rate to Charleston of \$1.40, and I have pledged my personal word to Mr. Wentz that we will build a coal terminal at Charleston, with one unit of sufficient capacity to give a thorough trial.

Senator Tillman: What do you mean by "one unit"?

Mr. Harrison: Enough to take care of one ship at a time.

Senator Tillman: How long will it take to load a ship?

Mr. Harrison: I am not able to answer that. We have engineers now studying the physical plans of that, and I am not able to anticipate what they are going to report on it.

Senator Tillman: You see it is so vital to the prosperity of the city of Charleston is the reason I am so much concerned about it, and I would like to have correct information from headquarters, and that is the reason I am "butting in" here and asking these questions. If there is any man alive who can tell me just what the Southern Railway is going to do you ought to be the man, unless you belong to somebody else and can not do something until you get orders.

Mr. Harrison: I undertake the responsibility of telling you what the Southern Railway will do, sir.

Senator Tillman: I felt that if the Clinchfield is going to build terminals and had already let the contract the Southern would use those terminals.

Mr. Harrison: I did my best to bring that about, Senator, to avoid the duplication of capital, to have one terminal open to everyone. I announced to Mr. Potter last winter that we were going to build our terminal, but he came back and urged that we use his terminal; that he would make fair arrangements for the use of it for our shipments. I submitted that suggestion to some of our shippers and they declined to accept it. The reason which they gave was that they were unwilling to have their coal go over a terminal controlled by anyone who was also in the coal business, and that they believed that the identification of interests between Mr. Potter's friends in the coal business and his friends in the railroad were such that they would not risk their coal in the same terminal.

Senator Tillman: You see the Clinchfield people own a great deal of coal of their own. And they naturally want to mine and sell their coal rather than allow others to do the same thing.

Mr. Thom: That was just what Mr. Harrison was alluding to.

Mr. Harrison: Mr. Wentz and Mr. Newton, who are here, who are engaged in the coal business and who want to engage in this tidewater business are unwilling, for that reason, to have their coal go through a terminal controlled—

Mr. Thom: That would mean that the Southern Railway, in order to get any coal business at all, must build terminals?

Mr. Harrison: It must build terminals, and I have told you. I have pledged my word that we will build a terminal immediately. We have the real estate bought.

Senator Tillman: I know that.

Mr. Harrison: And we are now completing an engineers' plan for construction of the terminal.

Senator Tillman: I can assure the people of Charleston that the Southern is going to build terminals.

Mr. Harrison: Mr. Finley reached the conclusion that he would build a terminal in November, or just before he died. He, however, did not have any money to build it with. This winter I made, as I have stated, provision for constructing terminals for the Southern Railway. The minutes of the meeting at which that provision was made show there was an appropriation set aside of \$500,000 to be spent at Charleston on a terminal.

The Chairman: What was the date of that?

Mr. Harrison: That was February 19, 1914.

Mr. Thom: In connection, Mr. Chairman, with that statement of Mr. Harrison I will read this into the record at this point (reading):

SOUTHERN RAILWAY CO.,
NEW YORK, September 19, 1913.

MR. W. W. FINLEY,

President, Washington, D. C.

DEAR SIR: The board of directors at a meeting held today authorized the purchase from Magnolia Cemetery of about 120 acres of land, with 4,000 feet of river front at Charleston, S. C., for development of coal-handling facilities, at estimated cost of \$100,000. Your file on this subject is returned herewith.

Yours very truly,

R. D. LANFORD,
Vice-President and Secretary.

On the next day I read this memorandum (reading):

WASHINGTON, September 24, 1913.

(Office memorandum: Purchase of property in Charleston, S. C.)
In a conference with Vice-President Spencer I authorized him to conclude the purchase of this property in accordance with the authority of the board.

W. W. F.

I would also like to introduce the act of the Assembly of South Carolina, passed at its last session, held in January, at which the Magnolia Cemetery Co., in the January of this year, obtained an act which authorized them to sell the land for other than cemetery purposes. The purchase of the land waited on that act, that act being necessary.

We went to try to buy the property, and we found out this difficulty in getting the title. Thereupon the Magnolia Cemetery Co. went to the South Carolina Legislature and secured an act authorizing them to make the sale, and when that was done the sale was consummated.

The Chairman: Are they going to build these terminals in the cemetery?

Senator Tillman: No; on the land that belonged to the cemetery.

Mr. Harrison: Senator, it has been my experience that if ever you

are in doubt as to where a cemetery it, just start a railroad engineer to work and you will find it. They will find a cemetery every time in running a line for a railroad.

Now, to conclude that statement, Mr. Chairman, I have shown that to get an adequate railroad to move coal from Appalachia to Charleston is going to cost \$11,500,000. We are willing to make an experiment with our present railroad to see what can be done with moving coal—what trade can be built up. We are willing to provide a terminal and we have the land on which to provide a terminal. We have an appropriation with which to build a terminal; we have the money in the bank, and we are going to do it.

Senator Tillman: You have the \$11,000,000?

Mr. Harrison: No; we have the money to build a terminal.

Senator Chilton: He says he is going to use his present line to make the demonstration.

Senator Tillman: He has already said, I think, that the present line was wholly inadequate, owing to the grades, etc.

Mr. Thom: Let me clear that up. Mr. Harrison, your reference to that matter related to how cheaply and how economically the traffic could be hauled over our present railroad, as I understand it?

Mr. Harrison: Yes.

Mr. Thom: And you have stated that, notwithstanding the excessive cost that our present physical conditions will entail, we will haul the coal there at \$1.40 a ton for export, and that we will construct, as a part of our transportation facilities, at Charleston, this coal pier to which you have alluded; that you are going to do that for the purpose of giving it a full trial to determine whether or not there can be a coal-export business built up through the port of Charleston?

Mr. Harrison: Yes, sir.

Senator Tillman: That is, regardless of the Clinchfield business?

Mr. Thom: Yes, sir.

Senator Tillman: You are going to have one unit, then, of a Southern coal terminal?

Mr. Thom: We are going to have a coal pier there built by the Southern in addition to whatever pier the Clinchfield people build there, or the Holston Corporation. We have tried, Senator, as Mr. Harrison has explained, to avoid the duplication of facilities at that point. In your absence on Friday I read a letter from Mr. Finley to Mr. Potter, dated July 1, 1913, in which he took the position that whatever facilities were opened there must be open to every shipper that wanted to use them on our lines, and that we could not go into an arrangement which would make it necessary for any shipper to make a private contract with a private corporation to get the facilities; that we must pursue the policy of having those facilities open to all. That letter was read here.

Now, the matter of the purchase of this land and the appropriation of the money which Mr. Harrison speaks of, and of the arrangement for constructing our own piers, is in pursuance of our policy of having a pier there which any shipper on our lines can use—

Senator Tillman: Regardless of what the Clinchfield does?

Mr. Thom: Regardless of what the Clinchfield does. And that has not been a recent development, but has been, as I say, going on in the

way of debate for perhaps a year prior to July 1, 1913, or longer than that, and culminated last summer in that determination. It has not been the outgrowth of any investigation or anything else. It has been the deliberate purpose which has been adopted by the Southern Railway Co. to meet this situation.

Mr. Harrison, you have heard my statement. Is that a fair statement?

Mr. Harrison: That is a fair statement; I indorse it.

Mr. Thom: Will you explain, in connection with what you have said, through what means you purchased this land at Charleston?

Mr. Harrison: The land was purchased by the Stonega Co. Mr. Wentz, president of that company, has been one of the promoters of the construction of a coal terminal at Charleston. It was a year ago or more that he agreed with Mr. Finley to find a site and to buy a site at Charleston on which a coal terminal might be built. Mr. Wentz went to Charleston, and later, as I am advised, in order that he might be perfectly free and not be considered as representing the Southern Railway in his negotiations, he notified Mr. Spencer, one of our vice-presidents, that he was acting for his own account. We, however, considered that we would always have the opportunity to buy that land from him if he would sell it. We did eventually acquire it, and the title was perfected through this act of the legislature; and when the title was perfected we took the land over and reimbursed Mr. Wentz for the purchase of it.

Mr. Thom: Was the taking over of that land from Mr. Wentz in pursuance of a purpose which had been formed at the time Mr. Wentz was asked to undertake the purchase?

Mr. Harrison: My understanding from Mr. Finley was that at the time he asked Mr. Wentz to attempt this service he said it was necessary to build a coal terminal at Charleston, he did not then know where the money was coming from to do it, but he was willing to take the first step so far as acquiring the land was concerned.

Mr. Thom: I have a memorandum before me which has just been handed to me by Mr. Wentz (reading):

MEMORANDUM.

April 10, 1913, Mr. Samuel Dixon, Dr. John S. Wentz, and D. B. Wentz met Mr. W. W. Finley, president Southern Railway Company, at his offices in New York, to discuss exporting coal from Charleston, S. C.

April 24, Mr. W. W. Finley wrote D. B. Wentz from the Waldorf in New York, advising that he had the question in mind and was active in his investigations in connection with it.

About May 23, D. B. Wentz met H. B. Spencer, vice president of the Southern Railway, on Pennsylvania train between Philadelphia and Baltimore and discussed question of constructing coal docks at Charleston.

May 30, D. B. Wentz arrived in Charleston and began inspection of suggested properties for dock construction. (See letter of D. B. Wentz to Mr. H. B. Spencer from Charleston, dated June 1, 1913.)

D. B. Wentz, again visited Charleston, Thursday, June 19, to negotiate with Messrs. Montague & Durant, and on June 20 options from the E. P. Burton Lumber Company and the Filbin Corporation for property on Cooper River were secured, which options expired September 20, 1913.

July 3, 1913, the Magnolia Cemetery gave the Stonega Company an option on 114 acres of land situated on Cooper River, consideration \$100,000, \$1,000 of which was paid on account.

October 3, 1913, Stonega Company accepted the option and entered into an agreement with Magnolia Cemetery, which provided that the charter of Magnolia Cemetery should be amended by the legislature so as to enable it to convey land for purposes other than burial, and further provided that when the charter was so amended the Magnolia Cemetery would give a deed of conveyance to the Stonega Company.

The Legislature of South Carolina amended the charter of Magnolia Cemetery February 10, 1914, and on March 16, 1914, Magnolia Cemetery conveyed the 114-acre tract to the Stonega Company.

On April 2, 1914, the Stonega Company entered into a deed of trust to sell the land.

That is a chronological history of what was done in respect to securing the site for this facility at Charleston.

The Chairman: By whom was that memorandum prepared?

Mr. Thom: By Mr. Wentz here, and handed to me right here. He will be on the stand and will testify about that.

Have you completed your statement, Mr. Harrison?

Mr. Harrison: I have completed it; yes.

Senator Tillman: Before you leave that coal situation, Mr. Harrison, I suppose you know if anybody knows when the Southern Railway Co. will let the contract for this coal terminal?

Mr. Harrison: We have just had the first reports, Senator, from the engineers who we sent down there to make studies of this thing. It is a question merely of engineering now.

Senator Tillman: Can you tell us within a year?

Mr. Harrison: Yes, sir; I can guess within three months.

Senator Tillman: When it will be finished?

Mr. Harrison: It will take about a year. The engineers say they may do it in nine months.

Senator Tillman: Have you any idea when the Clinchfield people will get through with that pier?

Mr. Harrison: I do not know.

Mr. Thom: Mr. Harrison, there is no question about the purpose of the Southern Railway Co. to go on actively with the establishment of this pier at Charleston, is there?

Mr. Harrison: None, whatever. There was doubt on that subject up to the time of my last conference with Mr. Wentz, which, I believe, was in May, or, perhaps, in June, when he made the objection, which I have stated, to using Mr. Potter's facilities; and I then abandoned the expectation of being able to avoid the duplication of capital expense.

Mr. Thom: In other words, Mr. Harrison, you had hoped to be able to make some arrangement that would be satisfactory to the shippers of the Virginia & Southwestern by which you could utilize the pier construction that was to be made by other people?

Mr. Harrison: It was in that hope that I made no announcement of the appropriation or policy with regard to building that terminal until now.

Mr. Thom: But there has been no doubt for more than a year that the Virginia & Southwestern operators would be accommodated there through these facilities to be established by Mr. Potter's company or by facilities to be established by the Southern?

Mr. Harrison: We were committed to the proposition that if dock terminals were not provided by somebody else they would be by us.

Mr. Thom: And it has only been the working out of that question, whether or not the duplication of expense could be saved, that has delayed this announcement until now?

Mr. Harrison: Yes.

Senator Tillman: Right there, Mr. Harrison, if you do not mind answering; if you do, do not answer it—the Clinchfield people own lots of coal of their own, and they own the railroad, too. They have now reached, or are about to reach, tidewater at Charleston. If the other coal operators in that region are to reach tidewater, too, the Southern Railway will not only be compelled to develop or build coal terminals but they will have to spend this \$11,000,000 also to compete? You can not haul coal in competition with the Clinchfield people over a railroad that is inadequate—

Mr. Harrison: Oh, yes; we can. I think we have hauled coal in competition with the Clinchfield people for a good many years, Senator, on what we have now.

Senator Tillman: It will depend entirely on the amount of export business built up at Charleston whether you will feel warranted in expending the necessary money to reduce grades and straighten curves in order to make your railroad haul coal as cheaply as the Clinchfield people?

Mr. Harrison: Well, as cheaply as the Norfolk & Western. I think we do haul coal now as cheaply as the Clinchfield people do on their line between Speer's Ferry and Charleston.

Senator Chilton: You say you gave a rate of \$1.40 to the seaboard?

Mr. Harrison: Yes, sir.

Senator Chilton: That is the C. & O. rate?

Mr. Harrison: To Norfolk; yes.

Mr. Thom: What we propose to do, in other words, is to put coal in Charleston, with a coal terminal, as cheaply to the shipper from the Appalachian district, including every mine, on the Virginia & Southwestern road, as the Norfolk & Western hauls its Pocahontas coal to Norfolk.

Mr. Harrison: Yes, sir.

Senator Tillman: In other words, you are going to compete for the business honestly and earnestly?

Mr. Thom: Yes, sir.

The Chairman: I think Mr. Harrison has answered that.

Mr. Thom: And that has not been a sudden purpose, but it has been the outgrowth of the conditions and the negotiations to which you have made reference?

Mr. Harrison: The construction of the Panama Canal has stirred us up considerably about that.

Senator Chilton: If you go in there to get it at all you have got to go in there on conditions by which you have to compete.

Mr. Thom: I would like for you to develop that statement about the Panama Canal.

Mr. Harrison: While this discussion was going on the Panama Canal was being built, and we have always seen the possibility of the relations between South Atlantic ports via the Panama Canal with the west coast of South America, and it has encouraged some of us to believe this ex-

porting of coal might be made profitable where before that we did not believe it could be made profitable.

Mr. Thom: The Panama Canal has influenced the judgment of the management of the Southern Railway Co. in respect to whether or not this was a justifiable undertaking?

Mr. Harrison: Yes, sir.

Senator Chilton: You speak of the export of coal.

Mr. Harrison: Export coal is any coal that goes to tidewater.

Mr. Thom: Mr. Harrison, has the Southern Railway Co. at any time had any intention of shutting off any shipper on its lines with respect to coal to any territory?

Mr. Harrison: Emphatically it has not.

Mr. Thom: You spoke of Mr. McHarg being for a time, and until the railroad was paid for, the continuing president of the Virginia & Southwestern Railroad. Did he, when he surrendered the control of that property, seek in any way to control the policy of the Southern Railway or the Virginia & Southwestern Railway with reference to coal rates or transportation of coal?

Mr. Harrison: I do not think he did. He became a coal shipper, and he has been an advocate of his own coal shipments. Whether he sought to do so, or not, it is a fact that he did not control the policy of the Southern Railway.

Mr. Thom: I was coming to that. Has he in any way controlled or influenced the policy of the Southern Railway or the Virginia & Southwestern Railroad?

Mr. Harrison: He has not. When we paid him out we were finished with him, so far as control of any railroad is concerned.

Mr. Thom: In connection with the amount of money that has been spent on the Virginia & Southwestern and the Southern Railway, has there been any substantial amount put in coal equipment for the purpose of hauling coal out of that Virginia & Southwestern district?

Mr. Harrison: Yes; a very considerable sum.

Mr. Thom: I understand it has been published in the newspapers that this policy of the Southern in respect to establishing facilities for transshipment of coal at Charleston has been the outgrowth of this Senate investigation and has been adopted since the Senate investigation was inaugurated. Will you be kind enough to state the facts about that?

Mr. Harrison: It is not the fact. As has been shown in the last half hour, the policy was a long-matured one. It was reached as a conclusion when Mr. Wentz was invited to buy the land, and it was, as you might say, consummated when provision was made for the money to develop the terminal in February of this year, and the actual determination to go ahead in spite of what the Clinchfield was doing was reached quite recently.

**END OF
TITLE**